

SURVEY OF TERRORIST GROUPS AND THEIR MEANS OF FINANCING

HEARING BEFORE THE SUBCOMMITTEE ON TERRORISM AND ILLICIT FINANCE OF THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED FIFTEENTH CONGRESS SECOND SESSION

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SURVEY OF TERRORIST GROUPS AND THEIR MEANS OF FINANCING

Friday, September 7, 2018

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TERRORISM
AND ILLICIT FINANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:22 a.m., in room 2128, Rayburn House Office Building, Hon. Stevan Pearce [chairman of the subcommittee] presiding.

Present: Representatives Pearce, Pittenger, Rothfus, Tipton, Hill, Emmer, Zeldin, Davidson, Budd, Kustoff, Perlmutter, Maloney, Himes, Foster, Sinema, Vargas, Gottheimer, Kihuen, Lynch, and Waters.

Chairman PEARCE. The subcommittee will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Members of the committee who are not members of the Subcommittee on Terrorism and Illicit Finance may participate in today's hearing. All members will have 5 legislative days within which to submit extraneous materials to the Chair for inclusion in the record.

This hearing is entitled, "Survey of Terrorist Groups and Their Means of Financing." I will now recognize myself for 2 minutes to give an opening statement.

I want to thank everyone for joining us today. Today's hearing will examine the current landscape of terrorism around the world and the ways that these groups are financing their operations.

Terrorist organizations cannot function without financial resources to organize and carry out violent actions. Congress must understand the full nature of the current threats facing our Nation and the globe. We must remain vigilant in identifying and cutting off the funding mechanism of these organizations that pose a threat to global safety. This vital piece of our Nation's antiterrorist strategy cannot be overlooked.

On April 22, 2015, the Terrorism Financial Task Force of the 114th Congress held a similar hearing to examine which terrorist groups posed the greatest threats to global stability. In the 3 years since that initial hearing, terrorist organizations have adapted and changed their ways of managing their operations.

I would like to bring up the example of the Islamic state, better known as ISIS, to highlight how the global landscape has changed since that hearing. At their peak in 2014, ISIS was generating around \$81 million a month through taxes, oil sales, smuggling,

and extortion. Additionally, during this time, the group controlled 41,000 square miles of territory in Iraq and Syria and ruled over 8 million people.

Currently, ISIS has lost 98 percent of their territory in these two countries, and more than 7.7 million people have been liberated from ISIS' oppression. While the loss of this territory has caused their revenues to plummet greatly, the group still is able to pay terrorist cells and spread violence globally.

While ISIS may be one of the most glaring examples of a terrorist organization being forced to change their operations as a result of global intervention, there are many more throughout the world, from al-Qaida running fundraising operations and campaigns with cryptocurrencies to Hezbollah operating drug trafficking rings in South America. We must ensure that Congress understands the full nature of the threats that we are currently facing.

This hearing will provide up-to-date information about which terrorist groups represent the highest threat and the new ways that they are financing their operations and infrastructure. I would like to thank our witnesses for being here today, and look forward to their expert testimony on these important issues.

I now would recognize the gentleman from Colorado for 2 minutes for an opening statement.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

I will keep my remarks brief because we are going to have votes on the floor pretty early this morning.

Thank you, Mr. Chairman. And thank you to all the panelists for being here to share your insight on major terrorist groups and how they finance their operations.

Terrorism takes many different forms, and bad actors finance their operations in many different ways. While there is no one silver bullet to shut down all of this financing, the United States and its allies must remain vigilant and adapt to a continually changing landscape.

Additionally, we must ensure law enforcement at the local, State, National, and international levels have the tools and information sharing necessary to reduce and prevent terrorism.

This subcommittee has learned a great deal about emerging technologies like cryptocurrencies, which present new challenges to law enforcement, but traditional financing methods such as drug trafficking, extortion, and kidnapping remain prevalent. We have to ensure we are devoting attention to both these age-old and emerging financing methods in our anti-terror efforts.

I look forward to the panelists' testimony today to update us on current terrorist groups and steps we can take to cut off their money.

Thank you, Mr. Chairman, and I yield back.

Chairman PEARCE. The gentleman yields back.

The Chair now recognizes the gentleman from North Carolina for an opening statement for 1 minute.

Mr. PITTINGER. Thank you, Mr. Chairman.

I want to just thank each of you for being here today. It is important for us to hear from you. And I would rather hear from you than listen to me, so I would like to waive my remarks. Thank you.

Chairman PEARCE. Thank you.

Now we would like to recognize our guests, our witnesses today. First of all, Katherine Bauer. Ms. Bauer is the Blumenstein-Katz Family Fellow at the Washington Institute for the Near East Policy. She is a former Treasury official who served as the Department's financial attache in Jerusalem and the Gulf.

Before leaving Treasury in late 2015, she served several months as Senior Policy Adviser for Iran in the Office of Terrorist Financing and Financial Crimes. Prior to working at the Treasury, Ms. Bauer was a nonproliferation graduate fellow at the Department of Energy's National Nuclear Security Administration. A graduate of Macalester College, she received her master's degree in Middle East Studies and International Economics at Johns Hopkins University.

Mr. Ali Soufan is the Chief Executive Officer of The Soufan Center. Mr. Soufan is a former FBI supervisory special agent who investigated and supervised highly sensitive and complex international terrorism cases, including the East African Embassy bombings, the attack on the USS *Cole*, and the events surrounding 9/11.

Mr. Soufan also serves as a member of the Homeland Security Advisory Council. He is an honors graduate from Mansfield University of Pennsylvania and also received a master of arts from Villanova University.

Yaya Fanusie is the Director of Analysis for the Foundation for Defense of Democracies' Center on Sanctions and Illicit Finance. Yaya spent 7 years as both an economics and counterterrorism analyst in the CIA where he regularly briefed the White House-level policymakers, U.S. military personnel, and Federal law enforcement.

After government service, Yaya worked with a small consulting firm where he led a team of analysts working on multibillion dollar recovery efforts involving a global corruption ring. He received a master's degree in international affairs from Columbia University and received his bachelor's degree in economics from UC Berkeley.

Mr. Oren Segal is the Director of the Anti-Defamation League, Center on Extremism, which combats extremism, terrorism, and all forms of hate in the real world and online. Much of Mr. Segal's time with ADL has been devoted to evaluating the activity and the tactics of extremist groups and movements, training law enforcement officers, and publishing reports and articles on a wide range of extremist topics.

In 2006, Mr. Segal was recognized by the FBI for his exceptional service in the public interest. He is a graduate of Wheaton College in Massachusetts.

Now I would like to recognize Mr. Rothfus to introduce our last guest witness today.

Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman.

It is a real privilege today to welcome Dr. Colin Clarke, all the way from western Pennsylvania. And it is great to have you here today. We just met last week talking about some of these very issues.

Dr. Clarke is a Senior Political Scientist at the RAND Corporation where his research focuses on terrorism, insurgency, and criminal networks. At RAND, Dr. Clarke has directed studies on ISIS financing, the future of terrorism, and transnational crime, and lessons learned from all insurgencies between the end of World War II and 2009. He is also an Associate Fellow at the International Center for Counterterrorism, a nonresident senior fellow at the Foreign Policy Research Institute, and a member of the Pardee RAND Graduate School Faculty, and a lecturer at Carnegie Mellon University.

He received his BA in communications from Loyola College, an MS in international relations from New York University, and a Ph.D. in international security policy from the University of Pittsburgh.

Welcome, Dr. Clarke.

I yield back.

Chairman PEARCE. The gentleman yields back.

Now it is time to hear from our witnesses and their testimony.

Ms. Bauer, you are recognized for 5 minutes. Thank you again for being here.

STATEMENT OF KATHERINE BAUER

Ms. BAUER. Good morning. Thank you, Chairman.

Chairman Pearce, Ranking Member Perlmutter, and distinguished members of the subcommittee, it is an honor to be testifying before you today.

Although the threat of terrorism spans the globe, my written testimony focuses on Middle East-based groups, notably the so-called Islamic state, al-Qaida, and Iranian support for terrorism, tracing the evolution of their financing methodologies, and the U.S. and foreign government responses, as well as discussing the effectiveness of the CFT, or counterterrorist financing toolkit.

In the next few minutes I will summarize some of the key trends, challenges, and opportunities, which I discuss in greater detail in my written testimony.

The threat of extremism and terrorism across the Middle East is increasingly complex. Since 9/11, the U.S. and its allies have dramatically improved their capacity to detect, disrupt attacks through increased information sharing, and to undermine such groups through the deployment of sophisticated, diplomatic, military, and financial initiatives.

Nonetheless, years of conflict in Syria, Iraq, Yemen, and elsewhere have provided fertile ground for terrorist groups and extremist ideologies. These conflicts have spurred humanitarian crises and stoked sectarianism. Although al-Qaida historically relied on external donations as it and, more recently, the Islamic state, established global networks of affiliates, their methods of financing have diversified.

A number of dynamics underlie these changes, including counterterrorism efforts broadly and counterterrorist financing efforts specifically, but also the breakdown of political systems and the proliferation of ungoverned spaces that have allowed terrorist organizations to increasingly hold territory to tax and extort the local population and to even control, extract, and sell resources.

Terrorist organizations have also capitalized on trends of globalization that facilitate even greater movement of ideas, people, and funds. Disrupting foreign sources of financing alone, therefore, will not bankrupt such groups. As terrorist financing methodologies evolve, responses from the international community to counter such threats must also adapt.

Despite the fact that many terrorist organizations appear better resourced than ever before, counterterrorist financing remains a valuable endeavor. To counter the threat of terrorist financing, the United States and its partners deploy an increasingly sophisticated toolkit marshaling actionable financial intelligence, regulatory and sanctions authorities, and engagement with public and private stakeholders.

Such measures are deployed alongside other elements of power, such as diplomatic and military efforts. Consider the Islamic state, which in many ways represented unprecedented CFT challenge. Building on the extension of the U.N. 1267 mandate, the U.S.-led counter-ISIL coalition developed and implemented a dual-track approach that relied on isolating IS-controlled territory from the global financial system and depriving the group of access to revenue.

While the former included supporting government of Iraq-led measures to cut salaries and take offline banks and exchange houses in IS-controlled territory, the latter involved military strikes on IS oil infrastructure and cash depots.

Private sector financial data gleaned by finance ministries and shared with U.S. military and law enforcement agencies helped to identify such targets by providing insight into which refineries and oil pumps were generating cash for the group. Despite these successes, sustained attention is required.

Today, IS remains well-resourced, able to pay salaries, and send funds abroad to its affiliates, as well as mount attacks. Regional regulators have taken important steps to try to ensure that the financial system is a hostile environment for such activity, but there is much more that needs to be done.

Even so, counterterrorist financing alone will not defeat the threat of terrorism, and it is not meant to. In order to achieve durable counterterrorism successes, counterterrorist financing must proceed alongside efforts to counter extremist ideologies and promote good governance.

Critics are right to highlight the high cost of anti-money laundering (AML) and CFT regulation on financial institutions, as well as in pointing to the need to better balance some of the competing but equally important priorities, such as the efficient delivery of timely humanitarian aid amid concerns that terrorists continue to abuse charity as a way to raise, launder, and move funds, as well as protecting access to banking and remittent services in conflict zones and high-risk areas.

Both have been the subject of intense discussion on ways to ease the CFT burden on banks and charities, including in hearings before the subcommittee. More progress can and should be made on both of these fronts. It is in the interest of broader counterterrorism objectives to do so.

Thank you for the opportunity to testify today, and I look forward to your questions.

[The prepared statement of Ms. Bauer can be found on page 34 of the appendix.]

Chairman PEARCE. Thank you.

Mr. Fanusie, you are recognized for 5 minutes.

STATEMENT OF YAYA J. FANUSIE

Mr. FANUSIE. Good morning Chairman Pearce, Vice Chairman Pittenger, and Ranking Member Perlmutter. On behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, CSIF, thank you for the opportunity to testify today.

Cryptocurrencies may become the way we transact in the future, but they are also becoming a part of the illicit financing toolkit available to terrorists. CSIF has documented multiple jihadist cryptocurrency fundraising campaigns on social media.

Cryptocurrencies and blockchain technology are not innately illicit and should not necessarily be feared. Like most technological innovations, they can be utilized for good or ill, depending on the user. The good news is that most terrorists, particularly those operating on jihadist battlefields, inhabit environments that are not currently conducive to cryptocurrency use. Still, there are multiple examples of terrorist cryptocurrency funding campaigns in my written statement, but in the interest of time, I will highlight one.

Late last year, CSIF began monitoring a jihadist funding campaign on Telegram, calling itself al-Sadaqah, Arabic for the charitable giving. The group claimed to be raising bitcoin funds for fighters in Syria. We monitored al-Sadaqah's social media channels and analyzed their bitcoin address, which it would highlight regularly asking followers to donate anonymously with bitcoin.

In its initial campaign, it sought \$750 for camp reinforcements. Within weeks, we noticed the address, the bitcoin address received \$685 worth of bitcoin. The group continued requesting funding for logistical supplies, but only received a handful of bitcoin transactions, none of them as large as the \$685 early in the campaign.

However, as the address lagged in receiving donations, they introduced techniques for supporters to give funds—or new techniques. At one point, the group encouraged followers to purchase bitcoin vouchers for a website that took payment in euros. The group posted sites where supporters could use bitcoin ATMs to buy cryptocurrencies. Clearly, the campaign organizers were trying to make the bitcoin process easier for novices.

Their most significant adaptation, though, was eventually branching out beyond bitcoin. By early 2018, the group posted on Telegram that they were accepting cryptocurrencies like Monero, Verge, and Dash. These are tokens that are less traceable than bitcoin.

The above case makes a few things clear: One, some terrorist organizations are looking to add cryptocurrency donations to their funding streams; but, two, their efforts thus far have not been very fruitful, probably because cryptocurrency's technical complexities, extremist preference for cash, and the traceability of most public blockchain protocols deters wider use.

Terrorist adoption of cryptocurrencies, in a way, simply mirrors that of the general public. This also means that if public

cryptocurrency adoption increases, terrorist groups will probably begin to transact more in digital tokens. So the U.S. must keep up with this technology and address new risk emerging from an evolving financial ecosystem.

I have a few actions, recommended actions that policymakers and also the tech industry should take to mitigate risk. One, counterthreat financing units must learn blockchain analysis. All units and agencies that investigate terrorist funding need to become proficient in analyzing cryptocurrency transactions.

Two, financial authorities should engage more cryptocurrency exchanges. Most people purchase their digital currency from exchanges. Many of these exchanges have ramped up their AML compliance the past few years, but many smaller exchanges trade in a greater variety of alternative tokens, especially these privacy coins. Many within the industry do want to keep terrorists and bad actors off their platforms, and authorities should work with those firms to protect citizens from terrorism without stifling technological innovation.

Three, cryptocurrency enthusiasts themselves should flag illicit wallets. Enthusiasts who care about the integrity of the cryptocurrency industry should flag illicit activity associated with terrorists and other illicit actors. In a sense, there should be a repository, perhaps developed by entrepreneurs in the private sector, where everyday users can flag illicit addresses from various blockchain systems. Such a site could be built with protocols to review—or should be built to review and vet submissions for credibility before publishing. But such a resource would make it easier for investigators to find illicit activity and help everyday users stay clear of problematic wallets. This could also be applied to ransomware and other illicit cyber criminals.

Cold hard cash, in conclusion, is still king. But jihadist groups are building diverse portfolios. Illicit actors adopt new technologies earlier than the wider public. When paper checks, credit cards, and PayPal each emerged, criminals exploited them early on. There are enough case studies of jihadist groups experimenting with cryptocurrencies to suggest that law enforcement and the intelligence community must prepare for terrorists to try to exploit digital tokens as the technology spreads.

On behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, thank you for the opportunity to testify. I look forward to your questions.

[The prepared statement of Mr. Fanusie can be found on page 66 of the appendix.]

Chairman PEARCE. Thank you, Mr. Fanusie.

Mr. Segal, you are recognized for 5 minutes.

STATEMENT OF OREN SEGAL

Mr. SEGAL. Good morning, Chairman Pearce, Ranking Member Perlmutter, and members of the subcommittee. My name is Oren Segal, and I serve as the Director of the Anti-Defamation League Center on Extremism. Thank you for the opportunity to testify today.

Since 1913, the mission of the ADL has been to stop the defamation of the Jewish people and to secure fair treatment and justice

for all. For decades, ADL has fought against anti-Semitism and all forms of bigotry by monitoring and exposing extremists who spread hate and commit acts of violence.

America continues to face these threats of crime, of violence from a number of different extremist movements, including white supremacists, antigovernment extremists, individuals who are motivated by radical interpretations of Islam, left-wing extremists, and others. ADL's research into these threats demonstrates that hatred and violence is not the sole domain of any one extremist movement, and we ignore any one of these movements at our peril.

ADL tracks murders and terrorist plots by these groups every year, with data stretching back to the 1970's. Over the past 10 years, domestic extremists of all kinds have killed at least 387 people in the United States. Of those deaths, the vast majority, approximately 71 percent, were at the hands of right-wing extremists, such as white supremacists and antigovernment extremists. These statistics are available in our report, which I have attached to my testimony.

Although extremist-related killings comprise a fraction of the total number of homicides in the United States each year, they often have an outsize impact, creating fear and anxiety in entire communities or even the entire country.

Just last month, ADL launched an interactive heat map which provides data on various extremist activity in the country, including murders and plots, shootouts with police, public displays of white supremacist propaganda, and anti-Semitic incidents nationwide. It can be filtered by region and by type. And this may be a useful tool to see what incidents have occurred in your own districts.

Unlike some foreign terrorist organizations that receive large amounts of financial resources from state sponsors, extremist movements in the United States are generally self-funded. In response to recent white supremacist activity, we conducted a study of the ways that white supremacists raise their money.

I would like to provide just a few details on these findings because this movement is in the midst of a resurgence and also because the dynamics are reflected in the way other violent extremists operate within the country. Recent advancements in online funding and social media usage have provided white supremacists with more fundraising and recruitment opportunities.

White supremacists quickly discovered for themselves the usefulness of these dedicated social media internet platforms like GoFundMe, Kickstarter, and others. Certain funding modalities like bitcoin and other cryptocurrencies are ripe for exploitation as extremists get more tech savvy.

But as mainstream funding platforms become aware of the exploitation of their services, they have increasingly moved to shut these extremists out. And we welcome these efforts. In fact, ADL helps identify these cases for the industry to assure that they are adhering to their own terms of services. And while these companies need to police their own platforms, there is a role for civil society in government.

My written testimony outlines several policy recommendations geared toward better understanding and preventing extremism

from across the ideological spectrum. These include government officials and civil society leaders, who must use their bully pulpit to send loud, clear, and consistent messages that hatred and violent extremism is unacceptable.

The Administration should resource a full range of CVE programs to counter all forms of violent extremism. Congress should pass legislation directing executive agencies to track statistics and regularly report on domestic violent extremism, including the extremism discussed today. And policymakers should urge tech companies to continue to provide and improve their terms of service and rigorously enforce their own guidelines.

Thank you very much for the opportunity to testify today. I would be pleased to answer any questions that any of the members may have. Thank you.

[The prepared statement of Mr. Segal can be found on page 77 of the appendix.]

Chairman PEARCE. Thank you.

Mr. Soufan, you are recognized for 5 minutes.

STATEMENT OF ALI H. SOUFAN

Mr. SOUFAN. Thank you, sir.

Chairman Pearce, Ranking Member Perlmutter, distinguished members, thank you for hearing my statement today.

During this session on terrorist financing, you will hear a great deal about the means by which terrorists fund their organizations, taxation and extortion, sales of stolen oil, looted artifacts, opium, organized crime, donations, and ransoms. These are all vital mechanisms to understand. And my fellow witnesses here represent some of the leading experts in the field.

In my statement, however, I would like to take a step back and invite members to consider the wider geopolitical factors that together afford terrorists the opportunity to raise money. I am speaking of the many conflicts around the world in which such groups participate, especially those in Syria, North Africa, and Yemen.

Terrorists use these wars to boost their resources in several ways. Let me briefly highlight two.

First, they systematically embed themselves in the messy specifics of each conflict to the point where it becomes difficult to separate them from legitimate local combatants. They may use this cover to create front organizations through which to funnel funds. For example, one example was a Ahrar al-Sham, which means free people of the Levant. As its name suggests, Ahrar al-Sham wanted to be seen as a nationalist group rather than a jihadi one. In reality, it cooperated with al-Nusrah, and its leader was a man whom the Treasury Department called al-Qaida's representative in Syria. Yet their rebranding stuck. The group reportedly received funds and material from sources in the Gulf states and Turkey, all American allies.

The logic behind such support is as old as the conflict itself: My enemy's enemy is my friend. But in this case, it represents an extremely dangerous line of thinking.

Today, in the complex civil war in Yemen, Saudi Arabia and its allies finds themselves, in effect, on the same side of al-Qaida in the Arabian Peninsula. AQAP has strengthened its ties to Yemen's

Sunni tribes and militias, to the point where it would be difficult, if not impossible, to support those groups without indirectly supporting al-Qaida.

Last month, the Associated Press reported that the Saudi-led coalition had resorted to paying AQAP to retreat from strategic holdings, in the process allowing them to retain their weapons and stolen assets. This is worrying, especially given active U.S. support for the coalition.

Second, terrorist groups benefit from heavy-handed foreign intervention. In the Middle East today, Saudi Arabia has set itself as a Sunni counterweight to Iran. But in doing so, both regional powers, Saudi Arabia and Iran, have prolonged already bloody conflict and lent them a vicious sectarian edge.

Bloodshed plays into the jihadis' overall game plan, which has always been exploiting these conflicts and weaponizing sectarianism. In the chaos of war, jihadi groups have seized territory from across the region, opening the door to all kinds of fundraising opportunities from taxation and extortion to outright robbery.

Regional conflicts have also provided a recruitment bonanza. For example, almost 45,000 foreign fighters from around the globe had joined the so-called Islamic state in Iraq and Syria. Another example, as one AQAP commander has been quoted as saying with respect to the front lines in Yemen, "If we send 20 fighters, we come back with 100." Indeed, AQAP has grown from around 1,000 members before the Yemen conflict to about 7,000 today.

Seventeen years ago, almost to the day, the United States was attacked by a terrorist organization of around 400 members based primarily in Afghanistan. We responded swiftly and defeated that version of al-Qaida. Today, however, a new jihadi threat has emerged around the world. It consists of many different radical organizations deeply embedded in local conflict that has made them difficult to target.

But there is a common factor linking these groups, including the so-called Islamic state, as well as every al-Qaida franchise. That factor is the ideology of salafi jihadism that manifests itself in the narrative of Osama bin Laden. We must dedicate ourself to destroying that narrative. Only when we do so we finally defeat them.

Thank you once again, and I welcome your questions.

[The prepared statement of Mr. Soufan can be found on page 118 of the appendix.]

Chairman PEARCE. Thank you, Mr. Soufan.

Dr. Clarke, you are recognized for 5 minutes.

STATEMENT OF COLIN P. CLARKE

Mr. CLARKE. Thank you, Chairman Pearce, Ranking Member Perlmutter, and distinguished members of the subcommittee, for inviting me to testify today.

As you will hear from my testimony, I believe ISIS is going to be around for a long time, enabled in part by its finances, which means that countering its ability to operate is critical to U.S. national security.

My testimony will address three fundamental issues. First, what is terrorist financing and where does it fit within the broader his-

torical context; second, how do terrorists generate income, how have their methods changed over time, and what are the current trends; third, with ISIS as the most significant terrorist threat we are facing today, how might this group attempt to finance a renewed campaign of terror in the future.

Terrorist financing is the raising, storing, and movement of funds acquired through licit or illicit methods for the purpose of committing terrorist acts or sustaining the logistical structure of a terrorist organization. Financing is used to augment militant groups' ability to execute attacks and fund organizational components aimed to increase group cohesion.

The way terrorist groups have earned funds has shifted drastically over time. During the cold war, superpowers funded proxy groups that engaged in insurgencies and committed acts of terrorism. In the aftermath of the dissolution of the Soviet Union, great-power geopolitical competition came to a temporary halt, as did the sponsorship of terrorist proxy groups.

Several high-profile groups no longer benefited from the largesse of state sponsorship and turned to criminal activities to fund their organizations. There were changes in the frequency and strength of cooperation among terrorists and criminals who were forced into a marriage of convenience to survive.

To insulate their organizations from shocks similar to those like losing an external sponsor, terrorist groups moved to insource the bulk of their financing, giving rise to terms like "do-it-yourself organized crime" and the "crime-terror nexus." ISIS has embraced the notion of the crime-terror nexus going to great lengths to recruit members from the criminal underworld. We saw this with the individuals involved in the Paris November 2015 and Brussels March 2016 attacks.

ISIS is different from previous terrorist groups because the territory it controlled provided extremely lucrative resources such as oil and a renewable funding source in the form of a taxable population. ISIS generated its wealth from three primary sources: Taxation and extortion, the looting of banks, and oil and gas. Like other terrorist groups, ISIS also relied on a range of criminal activities, including kidnapping for ransom and antiquity smuggling.

External state sponsorship, at least to date, has not been a major source of ISIS financing.

The struggle against ISIS has proven that serious challenges remain. As its territory is further reduced, ISIS will compensate for losses in certain revenue streams by increasing revenue generation elsewhere. Every facet of ISIS revenue should be nominated for targeting or sanctioning, with the most difficult areas to counter, namely taxation and extortion, a longer-term objective tied to postconflict reconstruction.

This is especially important given the group's history with extorting construction companies. Reconstruction aid to newly liberated cities will provide an attractive target for ISIS to make money without holding or controlling territory.

At present, there are no law enforcement or security service entities capable of preventing ISIS from making large sums of money from reconstruction contract skimming. The policing assets that do exist are underfunded and their resources are already strained.

As the caliphate disappears, much of the counter-ISIS mission in Iraq should transition from military force to law enforcement. This means investing more resources in training Iraqi and other law enforcement entities, an effort that must be more comprehensive than simply supplying equipment.

In Syria, the situation is far more difficult, since Assad remains in power and there is no semblance of state security services capable of policing rebel-held pockets of the country.

Traditional counterterrorism financing tools must be used to continue to keep ISIS isolated from external patrons and state sponsors of terrorism, even though, as I mentioned, to date, the group has largely avoided external state sponsorship.

Many terrorist groups attempt to circumvent the form of financial system, but their transactions occasionally intersect with various touch points, including corresponded banks in the region. Therefore, bank regulators and financial intelligence units of partner nations must be intimately involved in monitoring and identifying suspicious transactions.

In short, the coalition must continue to track financial flows into ISIS-held territory to monitor whether changes are occurring and closely monitor financial flows from countries where wealthy individuals have historically funded jihadist causes.

Thank you for the opportunity to testify today.

[The prepared statement of Mr. Clarke can be found on page 57 of the appendix.]

Chairman PEARCE. Thank you, Dr. Clarke.

This is now time for us to move to questions from the committee members. I would recognize myself for 5 minutes.

Mr. Soufan, you mentioned that the only thing to do is to change the narrative of Bin Ladenism. How would you recommend that we go about that?

Mr. SOUFAN. Yes, sir. That is a good question. I think we need to recognize what kind of threat are we facing, and the threat today is a narrative by Osama bin Laden, and that narrative has different components. Component number one, it hijacked religious terminology in order to put out a political message. Number two, it created a conspiracy narrative in the Muslim world that the United States and the West are against Islam, and there is a crusade between the Christians and the Jews to defeat the Muslim world. And not a lot of people, in the beginning, believed in that but, unfortunately, that narrative is becoming more and more popular in the Middle East.

I think the intelligence operations that we do are extremely important. The law enforcement is extremely important. The military is extremely important. But we need to have a diplomatic effort to have a message out to counter what al-Qaida is saying, to counter what ISIS is saying and from a political perspective. But also we need to force our so-called allies to have the religious establishment to stand up and counter the religious arguments that these guys are doing. Unfortunately, 17 years after 9/11, we still did not do that successfully.

Chairman PEARCE. OK. Thank you.

Dr. Clarke, according to some press today, one could be led to the idea that ISIS has effectively been removed from the territory.

Your testimony moves in the opposite direction from that, and you are saying that still, oil is a significant source of revenue for ISIS. Is that more or less—am I hearing you correctly?

Mr. CLARKE. So I think it is correct that ISIS has lost the majority of its territory. I think 98 percent of its territory from—at one point, they controlled territory the size of Great Britain. They are still active in the Euphrates River Valley, and within the last month, month and-a-half, have moved back in and around Deir ez-Zor in parts of northeastern Syria and are once again attempting to regain—

Chairman PEARCE. Any estimates of how much, say, the oil revenues are? Are they still engaged in the archeological antiquities, the sale of those?

Mr. CLARKE. To a lesser extent, but they are seeking to regain control of the oil because it is so lucrative in and around Deir ez-Zor.

Chairman PEARCE. You mentioned in, I think it is page 6 of your testimony, that there are very little law enforcement efforts to counteract. If there are law enforcement efforts from any of the countries worldwide, who would be one of the examples of good interaction on the part of the police and the funding of the agencies?

Mr. CLARKE. So I would look to the Italian Carbonari, because they actually have experience combatting organized crime, and from what I understand, they actually are somewhat active in Iraq. My statement that there is an absence of law enforcement refers more so to Syria, where there is just a giant vacuum and large swaths of rural eastern Syria outside the writ of control of Assad. But also, there are Kurdish groups operating, there is the SDF and others in it, so in many ways an ungoverned space.

Chairman PEARCE. Ms. Bauer, are you seeing any activities in Central or South America from the terrorist organizations? As we raise the pressure in the Middle East, are you seeing that eruption other places?

Ms. BAUER. Hezbollah networks in Central and South America have long been an interest and a focus. The Treasury Department, for example, identified a network in the tri-border area in the middle part of the last decade, the Barakat Clan, and it sanctioned them. But beyond the financing of course, operational networks and Hezbollah's work with criminal networks and drug traffickers in that region are also of concern.

One thing that I think is positive to note, there has been some recent action by countries in the region. For example, with regard to Barakat, the Argentinians have taken up the issue. They froze assets of the Barakat Clan over the summer, and have also committed to cooperation with the U.S. to go after Hezbollah funding in the tri-border area.

Chairman PEARCE. Thank you. My time is expired.

I would recognize the gentleman from Colorado for 5 minutes.

Mr. PERLMUTTER. Thanks, Mr. Chairman.

My first question is to you, Mr. Fanusie. While the Financial Action Task Force, FATF, has issued guidance, currently its formal recommendations do not cover cryptocurrencies. So with terrorist finance in mind, should the U.S. Department of Treasury be push-

ing FATF or other international bodies for more targeted action on cryptocurrencies?

Mr. FANUSIE. Yes. The short answer is yes. I do believe that FATF has signaled that it wants to update its recommendations to actually specify virtual currencies in a more precise way. Right now, there is definitely a loophole there.

But, there should be clarity on the issue of how do virtual currencies differ from wire transfers. Right now, there is language within FATF's recommendations that do talk about wire transfers, but you can't really apply those to virtual currencies. So there should be that.

I believe even the G20 has recently said that by October, they are planning to have a session where they are going to provide a better definition of virtual currencies and how that should relate to anti-money laundering. But they are going to base their decision on their language off of FATF. So I know that there is some movement there, but it just hasn't been fleshed out.

Mr. PERLMUTTER. Thank you. Because we have had other panels that have talked about the cryptocurrencies and, bitcoin and Litecoin are pretty easy, through their blockchain, to follow, but others get more and more obscure and opaque. So I would hope that we take all of that into consideration too.

Mr. FANUSIE. Yes. And one thing I would say, there is actually benefit in looking at what the U.S. has done when FinCEN in 2013 put out guidance, which was very clear about how cryptocurrency businesses should operate, basically under mostly the same laws that money transmitters and money service businesses operate.

We have actually done some studying where we saw that guidance, it appears, accounted for there being less illicit finance in North American exchanges compared to Europe. So much of the world is catching up in terms of implementing regulation. So I think as the U.S. model becomes perhaps more of a standard, the Europeans, the EU is actually trying to follow up and update their regulations. So I think it is trickling down, but it has to happen sooner.

Mr. PERLMUTTER. All right. Mr. Segal, and to the rest of the panel—and I am probably stealing Mrs. Maloney's thunder here, but I would be curious whether it is domestic terrorists or international, jihadist, whatever, whether or not you are seeing them use shell companies, phony front men, women, whatever, to shield their financing and what you might suggest we do about that.

Mr. SEGAL. Yes. Most of the domestic extremists, whether they are white supremacists, antigovernment, or even those who are inspired by ISIS and al-Qaida but who have lived here or raised here, they are able to mask in some ways some of their online donations.

So if you have an online crowdfunding site, you don't always necessarily have to even use your real name. Or in some cases what they do is pretend to raise money for some cause that doesn't sound particularly volatile or extremist as a way to fool people into providing them money.

Sovereign citizens in this country who pose a very significant violent risk are engaged in all sorts of scams from mortgage fraud to fake money, essentially monopoly money where they convince people that they are able to pay off their student loans, et cetera.

Yes, in some ways they are hiding behind fake entities, but in many ways they don't really have to, because a lot of their activity and their beliefs are not illegal in this country.

Mr. PERLMUTTER. Anybody else?

Ms. BAUER. Yes. I think that one of the interesting ways that terrorist groups use front companies is for procurement. So if you think as organizations get more globalized and have these global networks and are buying things more in bulk, they are acting like a lot of other illicit actors in terms of setting up false fronts to get dual-use goods.

Some of these have been exposed. Hezbollah has used front companies in the Gulf to procure parts for UAVs that were being deployed in Syria. The Islamic state has procured IED components in bulk and other precursors and things like that. So I actually see this as a vulnerability, because from an intelligence standpoint, if you can identify them, once you can make that public through a sanctions action, then they are exposed, and they are no longer valuable, and they are hard to set up, and this takes effort and resources to do it. And so you force them to change their modus operandi and do something slightly different.

Mr. PERLMUTTER. All right. My time is expired, so I thank you all for your testimony, and I yield back.

Chairman PEARCE. The gentleman yields back.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman. I thank each of you again for being here.

I think we all recognize that terrorists receive funds from various sources. We have state sponsors, extortions, antiquities, foundations, oil, trade-based money laundering, drugs, taxes, bank looting. I think we also recognize that they transfer money in many ways. There is hawalas. You have, of course, some measure of cryptocurrencies, cash. We are able to—they do wire transfers.

What I am trying to understand is, at the end of the day, how much of those funds need to ultimately get into the international financial system? How much do they need to receive cash to help them fund their requirements? And to that end, how capable are we in tracking those funds? How capable are we with technology and software? How capable are certain countries? How capable are our various embassies? Do we have adequate attaches?

Anybody. Who would like to start out?

Ms. Bauer, we are just going to go down the line. We will start with you, if you want.

Ms. BAUER. OK. Thank you. There are a lot of questions there. I think that the question of how much they use the international financial system, it is incredibly efficient. And if they are confident that they can use it in a way that they won't be detected, I think that is often a choice that illicit actors make.

Their needs are—

Mr. PITTENGER. At the end of the day, do you believe that they ultimately need to cash out? Whether they have gone through antiquities or have diamonds or oil or whatever, at the end of the day, do they need cash?

Ms. BAUER. At the end of the day, they usually need cash, but cash, it depends on geography, cross-border, cash smuggling is an issue. If you look at networks in the Gulf that were at the beginning of the Syrian conflict, aggregating funds and moving them likely not through the financial system.

I wanted to address your question also about whether or not we are well enough resourced in terms of financial attaches, since that is a role that I have been in, and it is an important issue to me.

Mr. PITTENGER. Quickly, if you can.

Ms. BAUER. OK. I think that attaches play a critical role in being able to engage in a technical conversation with their counterparts at finance ministries and at central banks. And so I think it is very important in the countries where we do need to have a robust bilateral conversation that there is an attache there.

Mr. PITTENGER. Mr. Fanusie.

Mr. FANUSIE. I will just say quickly, or I will point out that I think one way to think about this is, I think it is understood that much money laundering, much illicit finance activity does pass through the financial system. A lot of it does. It is very difficult to catch this.

The thing I will say, though, is, the volume is what is important. So the bigger the activity, the easier it is to find and to disrupt. The big issue is the onesies and twosies, the small transactions.

To pivot back on the cryptocurrencies issue, I think that is where we are there, that if you have small transactions, it is going to be much more difficult to intercede. But, generally speaking, yes, a lot still does go through, but the bigger it is, the more—

Mr. PITTENGER. How capable is our software and how adept are we in effectively using that? And how capable are our allied countries in embracing and utilizing the available technology?

Mr. FANUSIE. Depends on—if we are thinking about the banking system, the traditional banking system—

Mr. PITTENGER. Yes.

Mr. FANUSIE. —it totally—it varies. The financial intelligence units in different countries have different capabilities. That is one of the things that the Egmont Group works on. It really depends. And that is the issue, that you do have a lot of anti-money laundering arbitrage that happens in jurisdictions where they don't have the same level—maybe they have the software but perhaps not the same level of training that we have in the U.S.

Mr. PITTENGER. Quickly, does FATF create through its peer-to-peer accountability? Is that a good model?

Mr. FANUSIE. I am not familiar—I am sorry.

Mr. PITTENGER. FATF, Financial Action Task Force.

Mr. FANUSIE. Correct. Correct.

Mr. PITTENGER. It does peer-to-peer review of its 40 requirements to be fully engaged with it. Is that a good structure?

Mr. FANUSIE. I am not sure I have that much insight on their review model, so I can't speak in depth to that.

Mr. PITTENGER. My time has expired. Thank you.

Chairman PEARCE. The gentleman's time is expired.

The Chair now recognizes Mr. Lynch for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

We had a chance to meet with some of the rebel groups that are fighting in Syria against Bashar al-Assad a couple of years ago, and we asked each of these five or six rebel leaders what they were using to communicate with inside Syria. They all said the WhatsApp. So they are all using that. They had end-to-end encryption back then. I think they may still have it to a certain extent.

But more recently, we have seen that they have switched over to Telegram. Some of these terrorist groups are using that because of a couple of features. One is, they have self-destruct, automatic self-destruct on some of their messaging platforms, so that after a certain amount of time or after the message is read, it is automatically destroyed.

And they also can change out the SIM card. The SIM card can be swapped out. It makes it increasingly difficult for FBI—thank you, Mr. Soufan—and others to actually track them down.

So what is the status right now in terms of our ability to track some of this terrorist financing and terrorist activity in terms of social media? Are we still one step behind them? Are we getting full cooperation from Facebook and others and Twitter?

I saw the interviews over the past couple of days of their CEOs, but they said we will have to get back to you when we asked them questions of this nature. But what do you see, Mr. Soufan, in terms of that?

And by the way, thank you. Thank you all for your service to the country and to protecting our democracy.

Mr. SOUFAN. Thank you, sir. I don't know the capabilities of the intelligence community now. I am out of the government. But I trust my former colleagues in the intelligence community and in the FBI and the military. I think they have a really good handle on how to deal with their communication, especially when it is on WhatsApp or other encrypted platforms.

However, there was a big problem between the intelligence community and the law enforcement community and Silicon Valley on the issue of encryption. And I don't think that is solved. The same thing goes with the platforms. If you go and see how these groups, groups like al-Qaida or ISIS, or any of these extremist jihadi groups communicate, they use these platforms a lot.

Most of the recruitment that we see here in the United States is not a face-to-face recruitment. We don't have what, for example, they have in Europe. What we have are people getting recruited, being brainwashed because they are watching YouTube videos, because they are spending time on a WhatsApp group. So you don't need training camps or safe houses in order to brainwash folks now—

Mr. LYNCH. I need to reclaim my time because I have another question for you.

You said at the outset that really what we have to do is change the narrative, change this bin Laden narrative that the Christians in the U.S. and the Jews in Israel are against Islam, that is the central narrative that he uses to recruit and to perpetuate terrorism.

Do you think that—you look at some of our recent action, do you think that the Muslim ban that was announced by President

Trump, do you think that feeds the narrative that the U.S. is against Islam?

Mr. SOUFAN. Sir, the narrative is based on a conspiracy.

Mr. LYNCH. Come on, now. I need a yes or no answer. I only have 44 seconds. Do you think it feeds—I am just asking your professional opinion. Do you think that feeds the narrative?

Mr. SOUFAN. Absolutely it feeds the narrative.

Mr. LYNCH. OK. I have another question for you. Do you think cutting off the funding to Palestinians, do you think that feeds the narrative?

Mr. SOUFAN. That does not help, because somebody else will get the money.

Mr. LYNCH. Right, it doesn't. OK. Do you think moving the U.S. Embassy to Jerusalem, do you think that helps, or does it feed the narrative that the U.S. is against Islam?

Mr. SOUFAN. It does not help, no.

Mr. LYNCH. OK. That is all I have to ask. OK. Now, if you would like to extrapolate, expand on your answers, go right ahead. You have 13 seconds.

Mr. SOUFAN. If we view this conflict as a clash of civilization, then the conspiracy of bin Laden wins. If you view it as it really is and enter civilizational clash where we see Shia fighting Sunnis, Kurds fighting Arabs, Persians fighting Turks, or whatever—and I think that is how we need to view it—then we will be dealing with the roots of the conflicts. And if we don't deal with the roots of the conflict, that threat will continue to mutate as it has been mutated in the last 20 years.

Mr. LYNCH. Thank you very much. I yield back.

Chairman PEARCE. The gentleman's time is expired.

The Chair would now recognize the gentleman from Colorado, Mr. Tipton, for 5 minutes.

Mr. TIPTON. Thank you, Mr. Chairman. And I thank the panel for taking the time to be able to be here.

Mr. Clarke, you had mentioned earlier that we must be able to monitor cash-flows into ISIS-controlled areas. We have a pretty robust system here in the United States to be able to track some of those dollars with FATF that we have. Are we really seeing that coordination with our allies? Others have a real concern about terrorism. Are there any consequences if they don't employ those methods to be able to do it?

Mr. CLARKE. So the most difficult part, sir, about monitoring ISIS finances is that the group is largely self-contained. So a lot of money wasn't flowing from outside, from external state sponsors like it had with al-Qaida a decade and-a-half earlier. Part of that is because terrorist groups are learning organizations, and they have seen how effective Treasury and other partners have been.

The other piece to that is that ISIS, unlike previous terrorist groups, controlled such large swaths of territory that they didn't need to go out looking for other methods of fundraising and financing. The other piece to that, back in Europe with the foreign fighter piece, is that these individuals were taking advantage of what I call small dollar terrorism.

So they were through petty theft, robbery, minor drug trafficking, sales of counterfeit items, and defaulting on loans, getting

enough money to go, quote/unquote, “take a holiday in Turkey,” which was enough to pay for their one-way ticket to actually show up and fight.

I was questioned once, they said, someone asked me—it was a journalist—well, aren’t these people concerned they are defaulting on all these loans? And I joked, I said, well, when your plan is to martyr yourself, you are not really concerned about your credit score. And I think—I said it tongue in cheek, but it is largely true.

Three-quarters of terrorist attacks cost less than \$10,000. And so if you are aware of that and you are purposely trying to stay under the radar and you can raise funds through small dollar terrorism—Magnus Ranstorp called it micro financing the caliphate—and that poses a really significant threat to monitoring these transactions because they are in such small denominations.

Mr. TIPTON. Thank you.

Mr. Fanusie, you talked a little bit about some of the blockchain end of this. Given we have gotten some internal transfers that are going on, it is a little problematic for us to be able to track that with blockchain, if they are making transfers, small dollar amounts or otherwise. I think you had cited \$685, is that correct, in terms of one of the largest ones? Is there a real challenge that we need to be looking at? Are there some methods we should look at in terms of blockchain, given the disparity that we would have in terms of how that money can now move?

Mr. FANUSIE. The way to think about or to approach the blockchain transactions is, one, to think about there is a public ledger. So you can actually see transactions right as they move across the blockchain, and actually this is what we did. I think there is a different way to think, though, about these type of payments compared to what we are used to in the conventional banking system.

So if I identify a terrorist group that has made a transaction, my problem, whether I am law enforcement or regulators, we do not have the ability to freeze an account or freeze a cryptocurrency address like we do with regular bank accounts. So it calls for even a new way of thinking.

The only way that you could access those funds, if you are a third party, if you are an outsider, is if you have a private key with—I won’t get too technical, but you have to have something that person—even if you arrest the person, you may not be able to get at those funds. So we have to actually think differently about how do we approach illicit finance and getting to terrorists who are using it.

It is a really different ball game. The analysis that we outlined that we need, we need tools where you do more of this. You can’t just rely on looking at a transaction manually. You need to use software that actually uses algorithms to help you track and trace and maybe de-anonymize a little bit on the blockchain. That is something that I know people are looking at, but I would say that we actually need more expertise in that type of analysis in the government.

Mr. TIPTON. Great. And thank you for that.

And regarding some of the international communities, is there any type of suspicious activity that is identified really that generally is going to point to terrorism financing?

Mr. FANUSIE. So in terms of maybe, you mean, state sponsors being involved not so much with terrorism or terrorist financing. But I will say that we are concerned about this experimentation with some state actors, Venezuela, Iran most recently, and Russia in particular, to create alternative blockchain systems.

There is a long-term issue there. In the short term, I am not worried about a terrorist maybe using the Venezuelan petro, which probably doesn't really even exist. I am not worried about that, but I am worried about these states getting together and making an alternative system that could be resistant to sanctions in the long term.

Chairman PEARCE. The gentleman's time is expired.

The Chair would now recognize the Ranking Member of the full committee, Ms. Waters, for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman, for scheduling today's hearing to examine the current state of terrorism and financing of these terrible acts. While the types of terrorist attacks have changed since September 11, 2001, the need for terrorists to raise funds and pay for their activities has not.

As we contemplate new or improved programs to counter the financing of terrorism, our efforts must not forget the continuing threat from domestic terrorists and extremists. These include the ISIS-inspired attack in San Bernardino, which killed and injured 36 people, the deadly white supremacist mass shooting at the historic Emanuel AME Church in Charleston, and last year's murder of Ms. Heather Heyer as white nationalists marched in Charlottesville.

The Anti-Defamation League has determined that over the last 10 years approximately 71 percent of the U.S. deaths from extremists were at the hands of right-wing extremists such as white supremacists, antigovernment extremists, and so-called sovereign citizens.

The financing methods that these terrorists and extremists use can be harder to uncover. For example, they raise money for organization and operations with credit card overpayments, cash and even cryptocurrency payments sent by mail, petty crime, and simple fraud or tax evasion.

What is concerning to me is whether the Administration understands the present and growing threat from these right-wing extremists and is taking appropriate action to thwart them. The President's own comments strongly suggest otherwise. I hope this hearing will consider all of these terrorist groups and the individuals who seek to harm us.

So I am very pleased that the witnesses are here today.

And to Mr. Segal, I would like to raise a question. ADL has done exhaustive work in reviewing decades of terrorist acts by extremists of all kinds. As I have noted in my opening comments, your Center on Extremism found that, of all extremist- or terrorist-related murders in the U.S. over the last decade, including attacks in San Bernardino and Charleston, nearly three-quarters were committed by right-wing extremist groups. This is an astonishing

number. What do these statistics tell us about domestic terror now and in the future?

Mr. SEGAL. Thank you, Congresswoman.

Yes, I think one of the realities in this country is, when people think of the threat of terrorism, in many ways they are still thinking of the threat from abroad and foreign terrorist organizations and their ability to influence, as Mr. Soufan said, with the narrative that they are creating.

There are narratives in this country that are being created every day by individuals living in this country that are as equally evil or equally trying to stereotype particular communities in order to uplift the extremist ideologies that they represent.

For example, white supremacists believe that, whether it is multiculturalism or liberalism or, frankly, the Jews, that they need to fight back in order to win their country back to what it once was or what they perceive it once was.

While that is protected speech in this country, most domestic extremists are not actually affiliated with any group. And that is why you see many of the attacks that have been, for lack of a better term, successful, that have been deadly, have been carried out by people who share this ideology but may not actually be linked to any specific group.

The Congresswoman mentioned Dylann Roof, for example. Again, very much influenced by these ideologies of violence and hate that are very much homegrown and created in this country, but he was not affiliated with a particular group that is easy to, say, designate and try to deal with.

When you look, whether it is the past 10 years, 71 percent of terrorist attacks—excuse me, terrorist murders have been carried out by right-wing extremists, whether you look at 25 years and over 150 right-wing terrorist plots and attacks in this country, it is something that we do believe is ignored but we don't have the luxury to ignore any longer.

Ms. WATERS. In the last few seconds that I have, of course there has been a lot of discussion about how they acquire money and resources, and I heard some talk about the cryptocurrency.

And the gentleman who just responded to that question, I was just going through blockchain with someone last evening, trying to get up to speed on it. And unless you have a token or you have a key, you can't get in there and determine what people are doing, whether they are investing or they are raising money or trading or what have you.

So I am very interested in what methods are being used to raise money for these domestic terrorist acts.

Mr. SEGAL. Yes, so domestic terrorists essentially are primarily self-funded. Some of them have jobs. Some of them are looking to raise money online through donations. Some, indeed, are using social media sites and cryptocurrencies to try to raise some money.

Ms. WATERS. Are they using GoFundMe?

Mr. SEGAL. They sure are. I will say GoFundMe, Kickstarter, and others have done a pretty good job, though, when they are made aware, of kicking them off and enforcing their terms of service. So that is one way to prevent that.

But, again, the cost of actual—the fundraising that occurs within white supremacists, for example, does not necessarily correlate with the violence they commit. They don't need all that much money, frankly, in order to create fear and anxiety in our communities.

Ms. WATERS. Thank you very much.

And I yield back.

Chairman PEARCE. The gentlelady's time has expired.

Be advised that we have votes. We have 8 minutes left in a vote series. There is just one vote. It is my understanding that we have members of the committee who will ask questions after the vote series. If you do not have the ability to stay afterwards and to reconvene, then you can submit your questions in writing. We will accept those.

And we will ask that you all respond to them.

But, for the moment, we will recess and go to the floor, vote, and come back. We have just one vote, so cycle as fast as we can.

The committee stands in recess.

[Recess.]

Chairman PEARCE. The committee will come to order.

The Chair would now recognize Mr. Rothfus for 5 minutes for questions.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Thank you for your patience, panel. We do get interrupted from time to time with those votes. I am glad it was just a quick one-vote series.

I would like to maybe ask Ms. Bauer about this. It has been said by some in the intelligence community that they believe AQAP still poses a considerable risk to the U.S. homeland in terms of a terror attack. What are the local sources of income for AQAP?

Ms. BAUER. So AQAP is engaged in a variety of different sorts of raising funds. Most recently, they had a financial windfall when they were able to take control of the Port of Mukalla and raised a reported, I believe, \$2 million a day off of port fees. They also robbed a branch of the central bank of Yemen and may have recovered as much as \$100 million. So they have been well-resourced at this point.

In the past, they have relied on kidnapping for ransom and were able to more than double their budget during a short period—or their revenue, I should say—during a short period around 2013. So their financial status has just been on an upward trend for several years. And now they have been pushed out of Mukalla, but they are believed to have a substantial cushion.

Mr. ROTHFUS. What U.S. policies, what resources, what programs do we have that are disrupting AQAP's ability to gather resources right now?

Ms. BAUER. So there have been a number of designations of financiers related to AQAP. I would say, notably, one was part of a tranche of sanctions actions that was done under the Terror Finance Targeting Center, which is an initiative between the U.S. and the GCC states to cooperate both on information-sharing as well as taking joint actions. And they have taken actions against a number of Yemen-based financiers and facilitators from both AQAP and the Islamic state. So I think those are notable because

it shows that the Gulf states are taking some ownership of the issue themselves and are closer to the conflict.

Also, the UAE, in particular, has been involved in the Saudi-led coalition in Yemen and, I would say, sees the counterterrorism mission as equally important, if not interrelated to the mission of pushing back Iranian influence there. And so I think that the regional efforts have been very important.

Mr. ROTHFUS. We can switch to Hezbollah a little bit and particularly what has been going on in Latin America and the Politico article that came out last year. What is your understanding regarding how Hezbollah is raising funds currently to sustain its organization and pursue terrorism-related operations?

Ms. BAUER. So Hezbollah receives a significant amount of funding from Iran. Recently, the U.S. Government has said that could be as much as \$700 million to \$800 million a year.

But they have also always relied on a worldwide network for financing as well as for operational support. That network has come under considerable pressure. And if you look at Hezbollah's financial status right now, going back to 2016, then-Acting Under Secretary of the Treasury Adam Szubin said that Hezbollah was in its worst financial shape in decades. And I think that there is every indication that continues.

In fact, Secretary General Hassan Nasrallah just recently admitted, according to Lebanese press, that Hezbollah is experiencing a financial crisis. And I think that is because of this concerted effort to go after commercial fronts that were magnified by HIFPA, by the Hezbollah International Financing Prevention Act, which extended secondary sanctions to Hezbollah-related entities.

And so it really has pushed them out of the financial system. It is trying to drive a wedge between Hezbollah and its allies that provide commercial and operational cover. And I think it has made it harder for them to get funds from their global network as well.

Mr. ROTHFUS. I wonder if anybody can answer this question. I am running out of time. But, this country continues to watch the situation in Afghanistan. And we recently lost another one of our servicemembers. And we are spending considerable sums over there, and it continues to have significant instability in the operation of many terrorist organizations.

We look at Pakistan and what they have been doing. We look at Russia. We look at Iran and these countries seeking to destabilize Afghanistan through whatever means.

Are there things that we should be doing with respect to Iran, Russia, Pakistan that would help stem the flow of funds to these terrorist organizations in Afghanistan?

That is an open-ended question, I guess, maybe if one wants to take a crack. And I might want to follow up with all of you and seek some guidance on this very serious—

Mr. SOUFAN. Sir, I think the war in Afghanistan has been the longest war, and I think what we do is we are depending a lot on our military. I think we need to bring also the diplomats into this, because you need a political solution in Afghanistan that includes the Taliban, the Afghan Government, and a lot of the regional powers that have so much equity in the future of Afghanistan. And as

long as we don't have this kind of a political engagement, then I think this is going to continue.

Chairman PEARCE. The gentleman's time has expired.

The Chair would now recognize the gentleman from Arkansas, Mr. Hill, for 5 minutes.

Mr. HILL. Mr. Chairman, thank you for holding this hearing and having these quality witnesses to give us this overview of all the networks.

It has been very helpful to our work to hear your testimony today.

Following up on my friend from Pennsylvania's question on Hezbollah, I am curious, in terms of the ways and means of financial resources there, are they coming principally overland into Syria and Lebanon, or is it still principally in and out of Lebanon?

And give me some geographic focus on the flow of the money. No matter where the global organization is deriving that money, Africa or South America or wherever, how is it—tell me about the geography of how those funds are getting into the ground in either Lebanon or Syria.

Ms. Bauer.

Ms. BAUER. So I think it is hard to know exactly how the funds are moving. I think if you broaden the aperture a little bit and you look at how Iran resources its proxies in the Levant, a big part of that is through an airbridge that has been more active during the Syrian conflict but existed before, moving fighters and goods and arms to and from Iran, often fighters for training, and funds as well.

But a lot of the funding, I would say, just to clarify a point that I made before about Hezbollah's financial crisis, is in part because, despite the fact that they get so much money from Iran, their expenses have increased. And that is because of the conflict in Syria and that the funding is going not just to support Hezbollah's military efforts but Iranian proxies more broadly.

So I think I would just leave it at that.

Mr. HILL. All of us are concerned with Iran's engagement there and the expansion of their ground forces and air force and support of Hezbollah in terms of targeting Israel. I think all of us share our concern there. And trying to cut off the money flow there is equally important to our military objectives.

Mr. Fanusie, I was very intrigued by your testimony. Thanks for being here today.

Would you think that expanding—and I am asking this as a hypothetical question, so perhaps it is already expanded and that is something I am not aware of—expanding the idea of reporting a SAR (suspicious activity report) or on the crypto exchanges or wallet aspects or even miners, that they have some obligation to report a SAR over in the cryptocurrency arena?

And then can you envision how one would have a parallel to a currency transaction report in that arena? So I am presuming in my question that this is an exchange that is not affiliated with a commercial bank or someone who is already subject to the AML/BSA laws.

Can you share some thoughts on that?

Mr. FANUSIE. So most exchanges, if they are under U.S. jurisdiction, even if they are not affiliated with a bank, if they are a cryptocurrency exchange, they do have to file SARs. So they have to look at transactions, they have to do a lot of the same things that Western Union or MoneyGram would have to do. So that already does exist. And for U.S. exchanges, that has been in effect since 2013.

But, again, when you go outside the U.S., then you do have the issue where you have exchanges, and anyone, whether they are in the U.S. or not, they technically could anonymously access one of these other exchanges where you don't have those built-in requirements. So there is still a gap; there is a global gap.

Mr. HILL. And this idea of an exchange, of course, is just almost in the eye of the beholder. We refer to it as an exchange. It could be just a digital site that is setting itself out as an exchange of this cryptocurrency, perhaps of their own creation.

Mr. FANUSIE. Yes.

Mr. HILL. And so those are in—are they found in jurisdictions that we either have an MLAT with or who have a fairly robust securities regulatory apparatus?

Mr. FANUSIE. So they are—it runs the gamut. They are all over.

But even to follow up on your point about how informal this can be, even though I said there has been guidance and folks in the U.S. have to follow FinCEN guidance on this, but there have been examples of folks who have been very informal, because they held a lot of bitcoin, have served as basically money transmitters, without registering. That has happened. In fact, there was a recent prosecution of someone who laundered millions of dollars just doing it on his own.

The biggest thing to maybe look out for is there are different types of exchanges now that are being developed, smaller ones where the trading happens more by software and there is less need for customer identification. That is something that is experimental, but it is one of the things that I would flag as something to watch, because that is going to be even more difficult to get the entity to follow AML requirements.

Mr. HILL. Thank you for your contribution.

And thank you, Chairman.

Chairman PEARCE. The gentleman's time has expired.

The Chair would now recognize Mr. Davidson for 5 minutes.

Mr. DAVIDSON. Thank you, Chairman.

And thank you all for your written testimony and for the dialog that we have had. It is very helpful and greatly appreciated.

Mr. Fanusie, I really appreciate the crypto side. I am working on a bill with initial coin offerings. Of course, lots of these aren't currencies. Most of them really aren't—even bitcoin is more of a commodity than a true currency so far. But there are a lot of voids, as you have highlighted.

I guess, once you have identified an address, how easy is it, what tools are necessary, what legal framework is necessary to detect and prosecute the—you highlight a case where you have flagged this address. Once that is converted—the off-ramp basically—to hard currency, whatever it is, how can we detect that?

Mr. FANUSIE. So this is where the framework is really very similar to what we already have in place, because—you are right in asking that. Once they off-ramp, they have to go through—anyone that is acting illicitly still, if they want cash, if they want euros, if they want dollars, they have to go through somewhere, and those endpoints are the chokepoint, because there—

Mr. DAVIDSON. And that is the best place to catch them, to identify the person behind this otherwise fairly anonymous IP address.

Mr. FANUSIE. Right. Because usually they would have to register somewhere in order to do that. Because they are going into the regular banking system. So those are the chokepoints.

Mr. DAVIDSON. Right. So I was impressed with the ability to detect the address. Now, if we can continue to monitor that address for the off-ramp, I am hopeful that we can have some successful prosecutions.

Mr. Segal, I appreciate the work that you have done, and the written testimony, to highlight threats domestically. You did allude to this political spectrum but spent a lot of the topic on right-wing groups and whatnot. But I am particularly curious, I didn't see a single mention of the group Antifa. How do they get their money?

Mr. SEGAL. Right. So Antifa, just like any other movement in this country, is self-funded. To show up at a white supremacist rally to protest, or even if they want to engage in physical confrontation, maybe you get a bus ticket, maybe you get a ride from a friend, you need to spend some money on food. It is not—they are getting money the way I think most people would get money who want to join a protest.

Mr. DAVIDSON. Just bring your bike lock and you are ready.

Mr. SEGAL. Right.

Mr. DAVIDSON. OK. Thank you.

Ms. Bauer, I appreciate the—really, the Politico story gets lots of press, but, frankly, the head of our committee in February 2017, you had highlighted that this Operation Cassandra had been stalled due to concerns about the impact on the Iran negotiations. So thank you for your expertise in that matter and, frankly, some ongoing dialog with my colleagues.

I am curious about the progress with Cassandra and the prosecutions related to this and particularly with Hezbollah's ongoing activity with drug trafficking or other types of trafficking.

Ms. BAUER. So I can say, first of all, I think that the situation was much more nuanced than the media portrayed it to be. And I think that the thrust of the point I was making in the testimony that was cited there was, first of all, to note all of the actions and the sustained attention to the issue under the Obama Administration. Because, really, as I said just earlier, Hezbollah has been put in a difficult financial position, and that is because of concerted effort on that front.

And I would encourage you, if you want to look at a chronological approach to the different issues related to this, that my colleague Matt Levitt wrote a detailed piece in Lawfare that came out a few months ago that goes over really every step of the way. But I think there are often plenty of reasons why things aren't done, and he goes through a lot of those different reasons.

Today, Hezbollah does likely continue to engage in criminal activity, or at least individuals affiliated with them. That has always been part of the question, how close the affiliation is. And that is something that has drawn a lot of attention, as you mentioned, from the law enforcement community, from other parts of the U.S. Government, as well as from Congress.

Mr. DAVIDSON. OK.

As my time expires, I guess, ideally, for all, but if someone can mention, the link between drug trafficking and illicit finance. Frankly, with 72,000 dead Americans due to overdoses, it is hard for me to not see drug traffickers as real threats to our national security. Any comment on the funds there?

Chairman PEARCE. The gentleman's time has expired.

The Chair would now recognize the gentleman, Mr. Himes, for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman.

And thank you all for being here.

I had a bunch of questions about terrorist finance, but I got to thinking about a broader question that I would love to just get your opinions on.

My other committee is Intelligence. I spend a lot of time looking at the remarkable tactical capability we have, including our ability to disrupt financing when we want. And it is really remarkable tactically and spectacularly unsuccessful strategically. And what I mean by that is that 10 years have gone by and we have more groups and more places and more ungoverned space, particularly with respect to radical Sunni groups.

So my question is: As good as we are tactically, what are we getting wrong strategically?

And we have 4 minutes and 15 seconds. That is a Ph.D. thesis. But I didn't want to miss this opportunity to just get 40 seconds from each of you about a tangible thing, not abstractions, not more soft power and better diplomacy, a tangible thing we can do.

I look at this and I see us lining up with appalling dictators and quirky monarchies in ways that probably have blowback for us. I don't see us really helping to generate the economic growth that provides opportunity.

So let me just start on the left, and I would love to hear some tangible things that we could do that would change the strategic picture and actually begin to shrink the threat globally from Sunni radicals.

About 30 seconds each.

Ms. BAUER. OK. So I think, in the short time provided, that one of the things we can do better, since the lack of rule of law, these ungoverned spaces is part of the problem, is to focus more on rule-of-law efforts and specifically financial regulation, since that is my area of focus, I think, in conflict and post-conflict areas.

I think the Iraqi Central Bank has done a good job to try to take on this issue in just the last couple of years and that this contributes to efforts to try to constrain the Islamic state financially.

Mr. HIMES. Thank you.

Mr. Fanusie.

Mr. FANUSIE. I would point to engaging elements of our communities that should be engaged more in counterterrorism, so, let's

say, the Muslim American community. This narrative that is out there that we have discussed, there is also a narrative where folks within our communities are hesitant to—actually, let me phrase this properly.

There is a sense that counterterrorism efforts impact the Muslim community improperly. And I think there should be more engagement with Muslim counterterrorism offices, Muslim counterterrorism analysts and folks in law enforcement who can articulate what it is like to work in counterterrorism and be of the faith. And that is something that you don't hear about, you don't see it that much, and I think it is missing in our narrative about counterterrorism.

Mr. HIMES. Thank you.

Mr. Segal.

Mr. SEGAL. I would just add perhaps, in a similar vein, using former extremists to deliver the messages to those who are potentially at risk of believing these narratives. They have been there, they know what it is like, they have gotten out. And that could serve as a good model.

Mr. HIMES. Thank you. Thank you.

Mr. SOUFAN. I think, as you correctly mentioned, these groups are way bigger in numbers than they used to be on the eve of 9/11. The ideology showed a lot of resiliency. I think I will say that sectarianism now is a new nature of the conflict and the new banner for recruitment. I think the Arab Spring shifted the calculus of a lot of these groups to be involved through their own strategy of management of savagery to have control of land, as we have seen in Iraq and in Syria and in other places.

And I think these conflicts that are happening today in Yemen, in Syria, in North Africa are giving a new oxygen for these groups. In order to have a better strategic picture for the United States, we need to work on solving these conflicts. And without solving these conflicts, I think the military, the intelligence alone can only best, I think, marginally, really, affect the outcome of what is happening.

Mr. CLARKE. Thank you, Congressman.

We talk all the time about ungoverned space. Just a note on that. And I use that term myself, but I think we should better think about it as alternatively governed space. Because that space is governed; we just don't like who is governing it. And that gives you a sense of what is going on there.

What could we do to be less myopic? Annunciate a clear and cogent policy for Syria beyond destroying the Islamic state. I don't know what our Syria policy is. Amazingly, 17 years into Afghanistan, I don't know what the policy is there.

Mr. HIMES. Yes.

Thank you. You have all done the impossible. That was actually really interesting.

I will just close by noting that—I don't know how to evaluate all of that; I will take it you are all experts. But it is striking to me that what you listed—better working with local Muslims, better working with ex-extremists trying to tamp down conflict—we are actually doing the opposite of many of those things, or at least not talking about those things. I would just highlight that. Because,

again, I think tactically we are stunningly good at what we do, but we are just not moving the strategic picture on this issue.

Anyway, thank you, Mr. Chairman, for your indulgence.

And thank you all.

Chairman PEARCE. I would recognize now the gentleman from North Carolina, Mr. Budd, for 5 minutes.

Mr. BUDD. Thank you, Mr. Chairman. I appreciate you holding this hearing.

Mr. Himes, I appreciate your line of questioning. That was very insightful.

And all of our witnesses and panelists today, a lot of talent up there. So we appreciate you coming in, for your time.

I want to start by giving a special shout-out to you, Yaya Fanusie, for the Foundation for the Defense of Democracies. You have been very helpful to us, and you have been nothing but excellent in our requests to you. So whenever we have a question on terrorism/illicit financing, you have been excellent and responsive.

Anyone else, any of my colleagues over here, I wish they would use you. And as I have found out today, lots of other talented panelists, so thank you.

Yaya, after that high praise, I want to ask you some questions. So I want to start with Hezbollah and move into crypto.

First, how would you describe Hezbollah's current financial activities and sources of support in West Africa, also East Africa, and then Southern Africa.

Mr. FANUSIE. So this is something that we are looking at closely at FDD. In fact, my colleague, who you may be aware of, Emanuele Ottolenghi, who is a big expert on Hezbollah outside of the Levant—Hezbollah is active. Hezbollah, for a long time, has had networks within Africa, going from all the places that you mentioned—west, southern, central, and east.

So Hezbollah, I would assess, is still very active there, as it is in Latin America. It relies on its networks, business, businessmen, particularly who may have ties to Lebanon, historical ties to Lebanon.

Also, Africa serves as an intermediary point for trafficking and laundering. The drug trafficking that emanates from South America has to make its way to Europe, and Africa is actually a stopping ground for some of those routes. So Africa continues to be a part of their narcotrafficking network.

Mr. BUDD. Yaya, particularly in South America, you mentioned—and then I heard this area come up—Ms. Bauer, you mentioned the tri-border area, or the Triple Frontier. Is it that area, in particular, or is it broader than that in South America?

Mr. FANUSIE. That is a key nexus, a key location because there is so much illicit activity that happens there, and you have a lot of Hezbollah folks who participate in it. It is almost free rein for a lot of illicit activity.

But the networks do go throughout South America because of the drug trafficking. So where you see the drug trade, you are going to see a lot of Hezbollah influence emanating up further, Colombia, Venezuela, and other parts of Latin America.

Mr. BUDD. I understand. Thank you.

So what new U.S. efforts are we doing to interdict all that support?

Mr. FANUSIE. I think we have mentioned some of the things in terms of HIFPA going through. We recently had—almost a year ago, we had the narcotrafficking Department of Justice task force or investigation group, and that is operating.

I don't know. You could say it has probably been a mixed bag, in a sense, in that there have been more designations. I don't think we have had as many Latin America designations, though, so I think maybe there is a gap there.

So there is still more work to do, and it is likely that there is going to continue to be pressure for Hezbollah to ramp up its efforts because of the rising drug trade and what is going on with Iran, as we have mentioned, that there actually may be a financial crunch on Hezbollah with Iran facing more financial pressure itself.

Mr. BUDD. In your mention of Hezbollah, I want to use that as a shifting-over point to go over to cryptocurrencies. What are you seeing Hezbollah do in regards to cryptocurrencies, in particular?

Mr. FANUSIE. Yes, this is something that we have our eye on. We have not seen much. There is some scant reporting about some perhaps shady businessmen connected to Hezbollah who may be trying to get into the fintech space. This is actually something that we are trying to investigate more.

Mr. BUDD. OK.

Mr. FANUSIE. So it is something that is on our radar.

Mr. BUDD. Let me transition to state actors who are increasingly creating national cryptocurrencies. Venezuela, Iran, Russia—those come to mind.

Can you describe in detail how the efforts of state actors to create national cryptocurrencies impacts terror financing? And if you need to lay, in the time we have remaining, a little bit of a backdrop of who is doing what there.

Mr. FANUSIE. OK. I would also say there is a long term and the short term. Venezuela tried to create a cryptocurrency. It is not clear if it is even in existence. Russia says it wants to do—Iran also—a type of cryptocurrency system.

I would say, in the short term, this is not a major issue for terrorist financing, because a terrorist is not going to want Venezuelan Petro more than it wants bitcoin or Monero.

The only issue, I would say, is, in the long term, the potential for these groups for these states to maybe coordinate and create an alternative financial system—I am not saying that is going to happen, and I think there are a lot of barriers to that. But that would be the risk, that there is an alternative method of financing and transacting that is global. And right now that doesn't exist, but that is a thing that we should prevent.

Mr. BUDD. Very good.

It seems my time has expired. Thank you to each of you.

Chairman PEARCE. The gentleman's time has expired.

I would like to thank each one of our witnesses for your testimony today and for the gracious time you spent while we were in recess.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing.

Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

I just ask that, if you would please, respond as promptly as you are able.

Chairman PEARCE. This hearing is adjourned.

[Whereupon, at 11:11 a.m., the subcommittee was adjourned.]

A P P E N D I X

September 7, 2018



Survey of Terrorist Groups and Their Means of Financing

Katherine Bauer

Blumenstein-Katz Family Fellow, The Washington Institute for Near East Policy

Testimony submitted to the House Financial Services Subcommittee on Terrorism and Illicit Finance

September 7, 2018

Chairman Pearce, Ranking Member Perlmutter and distinguished members of the subcommittee, thank you for the opportunity to testify today on counter-terrorist financing (CFT).

The threat of terrorism and extremism is increasingly complex. Over the last fifteen years, the U.S. and its allies have dramatically improved their capacity to detect and disrupt attacks through increased information sharing and to undermine such groups through the deployment of sophisticated diplomatic, military and financial initiatives. Nonetheless, years of conflict in Syria, Iraq and Yemen have provided fertile ground for terrorist groups and extremist ideologies. These conflicts have spurred humanitarian crises and stoked sectarianism.

Prior to the 9/11 attacks, al-Qaeda's (AQ) primary source of funds was external donations funneled largely through charitable fronts. However, as AQ, and more recently the so-called Islamic State (IS), established global networks of affiliates, their methods of financing have also diversified. A number of dynamics underlie these changes, including counterterrorism efforts broadly and counter-terrorist financing efforts specifically, but also the breakdown of political systems and the proliferation of weak and ungoverned spaces that have allowed terrorist organizations to increasingly hold territory, tax and extort the local population, and even control, extract and sell natural resources. Terrorist organizations have also capitalized on trends of globalization that facilitate ever greater movement of ideas, people and funds.

As these organizations appear better resourced than ever before, some have called into question the value of CFT efforts. My testimony today will first look at the evolving nature of terrorism and terrorist financing, focusing on the cases of the Islamic State, Al Qaeda, and Iranian support for terrorism. Next, I will examine the effectiveness of counter-terrorist financing efforts, looking at the "tools in the toolkit," and their application; the role of financial sanctions and financial intelligence, and as well as the role of the private sector.

THE ISLAMIC STATE

When the Islamic State took over vast swaths of territory in Syria and Iraq in the spring and summer of 2014, it posed an unprecedented and nontraditional CFT challenge, due both to the size of its budget—reportedly close to \$2 billion in 2014—and its ability to derive the vast majority of its revenues from the territory it controls. The Islamic State did not develop this expertise overnight. Over a decade, its predecessors, al-Qaeda in Iraq (AQI) and the Islamic State in Iraq, developed a sophisticated system of financial management, even taking the strategic decision in 2009, according to documents recovered in Iraq¹, to derive revenues locally to avoid foreign dependence and direction. During the second part of the last decade, AQI resembled an organized-crime organization, engaging in sales of stolen goods, black market fuel sales and later, large scale extortion.²

In Iraq and Syria, the Islamic State effectively took advantage of multiple preexisting dynamics to enrich itself quickly after taking territory. These included a high concentration of natural resources, and established smuggling networks needed to monetize them; a sizable population and sufficient economic activity to tax and extort; and opportunities to loot valuable goods, including machinery and weapons, as well as bank branches, from which it is reported to have taken as much as \$500 million.

Despite the Islamic State's early prosperity, its considerable expenses created vulnerabilities that the U.S.-led Counter IS Coalition, along with the government of Iraq, effectively exploited. For example, in August 2015, the Iraqi government ceased paying salaries to employees in Islamic State-controlled territories, thereby cutting their revenue from the taxation of the salaries and reducing liquidity in IS-controlled territory.³ In late 2015, the Coalition also began to use air strikes to target and degrade Islamic State-controlled oil extraction, refining, and transportation. However, perhaps the greatest impact on IS's bottom line has been the loss of territory, which means fewer local resources—including people—under its control to tax and extort.⁴

As the Islamic State in Syria and Iraq has reverted to an insurgency, it has returned to many of the fundraising methodologies deployed by AQI. For example, as journalists and humanitarian workers return to recently liberated areas, the organization could potentially begin kidnapping for ransom again. In fact, in its most recent report, the UN Analytical Support and Sanctions

¹ Johnston, Patrick B., Jacob N. Shapiro, Howard Shatz, Benjamin Bahney, Danielle F. Jung, Patrick Ryan and Jonathan Wallace, *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005–2010*, Santa Monica, CA: RAND Corporation, 2016, http://www.rand.org/pubs/research_reports/RR1192.

² Bauer, Katherine, "The Evolution of Terrorist Financing Methodologies and Response" Institut Europea de la Mediterrania, "IEMeD Mediterranean Yearbook 2017," 2017, <http://www.iemed.org/publicacions/historic-de-publicacions/anuari-de-la-mediterrania/sumaris/iemed-mediterranean-yearbook-2017>

³ Glaser, Daniel, "The Evolution of Terrorism Financing: Disrupting the Islamic State," The Washington Institute for Near East Policy, October 21, 2016, <https://www.washingtoninstitute.org/policy-analysis/view/the-evolution-of-terrorism-financing-disrupting-the-islamic-state>

⁴ Ibid.

Monitoring Team warned about the heightened risk of “an increased global incidence of kidnapping for ransom among other revenue generating crimes and methods of financing.”⁵

Islamic State Provinces

The Islamic State’s recognition of franchises in eight countries across the Middle East, Africa, and Asia in November 2014, raised concerns that the so-called IS core in Syria and Iraq would share both its wealth and its fundraising expertise with its new affiliates. The groups that pledged allegiance to the Islamic State, most of which were preexisting organizations, already had established funding mechanisms. The provinces’ forerunners were primarily locally financed through crime, smuggling, extortion, and kidnapping for ransom; they generated significant revenue but were unable to support and sustain a state-building project like that of the Islamic State.⁶

Some of the IS provinces were undoubtedly motivated to affiliate themselves with the Islamic State based on the perception (and sometimes the promise) of additional resources. For a number of the provinces—at least in Libya, Sinai, Yemen, and the Philippines—it appears to be the case. Funds were provided either directly from the Islamic State core, or via other provinces, such as Libya to the Sinai and Yemen to Somalia.⁷

Prior to being pushed out of Sirte in December 2016, the IS province in Libya appeared to emerge as a regional hub for the group. In May 2016, the Treasury Department designated Libya-based Salmi ‘Ammar, IS-Sinai Province’s representative in Libya for transferring hundreds of thousands of dollars from Libya to the Sinai Province.⁸ The Islamic State in Somalia has also received funds from IS Libya, according to the UN, as well as support from IS in Yemen. Also notable, Abdelhamid Abaaoud, a suspected organizer of IS attacks in France and Belgium in November 2015 and March 2016, is reported to have had contacts with IS members in Libya related to financial and travel issues on behalf of the “Verviers cell,” which was disrupted by Belgian police in early 2015.⁹

⁵ United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

⁶ Bauer, Katherine. “Financing” in “Beyond Syria & Iraq: Examining Islamic State Provinces,” ed. Katherine Bauer, The Washington Institute for Near East Policy, November 2016. <https://www.washingtoninstitute.org/policy-analysis/view/beyond-syria-and-iraq-examining-islamic-state-provinces>

⁷ United Nations Security Council “Twentieth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Jun. 30, 2017. Web. http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573; United Nations Security Council, “Twenty-first report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Dec. 31, 2017, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/14/rev.1

⁸ U.S. Department of Treasury, “Treasury Designates Al-, Al-Nusra Front, AQAP, and Isil Fundraisers and Facilitators,” press release, May 19, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/j10462.aspx>

⁹ Brisard, Jean-Charles and Jackson, Kevin, “The Islamic State’s External Operations and the French-Belgian Nexus,” *CTC Sentinel* Vol: 9, Is: 11, November/December 2016, <https://ctc.usma.edu/the-islamic-states-external-operations-and-the-french-belgian-nexus/>

Neither Remaining nor Expanding

Having deprived the Islamic State of ninety-eight percent of the territory it once occupied,¹⁰ the international community is entering a new phase in the counter-IS campaign.

While it initially focused on the group's territorial grounding, which made it easier to locate fighters, both of foreign and indigenous origin, the next phase will focus on less visible networks of individuals and cells acting with a greater degree of autonomy.¹¹ In fact, the group's most significant recent attacks have been traced back to groups or "provinces" operating outside of Syria and Iraq, such as the Manchester and Barcelona bombings, as well as the bombing of a Sufi mosque in Egypt.¹² So-called frustrated travelers—those who were unable to travel before the collapse of the so-called Caliphate, or who have since returned—will continue to pose a greater threat and challenge to local law enforcement.¹³

As IS has backed away from its mantra of "remaining and expanding," it has encouraged followers to undertake attacks locally rather than traveling to fight in the Levant. Small cells, like foreign terrorist fighters, often self-fund through legitimate sources such as employment income, social assistance, or family support as well as through illicit sources such as fraudulent bank loans or other forms of fraud. Despite recognizable typologies, such transactions can be hard for law enforcement to spot without specific intelligence due to the relatively modest amount of funds being moved.¹⁴

Much of the conversation surrounding IS financing likewise has focused on its ability to derive revenue from territory it controlled. Despite reports that revenue generation has fallen broadly in line with territorial losses, the group appears to continue to be well-resourced: reportedly paying salaries, covering medical expenses¹⁵, and making on-going transfers to branches or provinces beyond Syria and Iraq.¹⁶ According to a recent UN report, one member state estimates IS's total

¹⁰ "CJTF-OIR reflects on 2017 and looks forward to 2018," United States Central Command, Jan. 1, 2018, <http://www.centcom.mil/MEDIA/NEWS-ARTICLES/News-Article-View/Article/1406595/cjtf-oir-reflects-on-2017-and-looks-forward-to-2018/>

¹¹ United Nations Security Council, "Report of the Analytical Support and Sanctions Monitoring Team pursuant to Security Council resolutions 1526 (2004) and 2253 (2015) concerning Islamic State in Iraq and the Levant (ISIL) (Da'esh), Al-Qaida and the Taliban and associated individuals and entities," April 4, 2016, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2016/213

¹² Hoffman, Bruce, "Episode 19: Bruce Hoffman on ISIS in 2017 and Beyond," The Security Studies Podcast, Georgetown University, January 2018. Podcast. <https://soundcloud.com/security-studies-podcast/episode-19-bruce-hoffman-on-isis-in-2017-and-beyond>

¹³ The net flow of foreign terrorist fighters out of Syrian and Iraq has been lower than initially anticipated, according to: United Nations Security Council, "Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015)," July 27, 2018, <http://undocs.org/S/2018/705>

¹⁴ United Nations Security Council, "Twentieth report of the Analytical Support and Sanctions Monitoring Team," August 7, 2017, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573

¹⁵ Daragahi, Borzou, "After The Black Flag of ISIS, Iraq Now Face The White Flags," *Buzzfeed News*, Apr. 1, 2018. Web. https://www.buzzfeed.com/borzoudaragahi/isis-iraq-white-flags-syria-new-name?utm_term=.pvPKYBbjz#pxPLenvDJ

¹⁶ United Nations Security Council, "Twentieth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da'esh), Al-Qaida and associated individuals and entities," Jun. 30, 2017. Web. http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573; United Nations Security Council, "Twenty-first report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da'esh), Al-Qaida and associated individuals and entities," Dec. 31, 2017,

reserves to be in the low hundreds of millions of dollars.¹⁷ Meanwhile, Islamic State affiliates are also looking to diversify their sources of funding; the Sinai branch robbed a bank in al Arish in October 2017, believed to have netted 17 million Egyptian pounds (about one million dollars).¹⁸

There has been great concern that the group was able to stash considerably amounts abroad or in front companies within Iraq and abroad.¹⁹ In February 2018, *The Economist* reported that, according to an Iraqi legislator, \$400 million was smuggled out of Iraq and Syria during its retreat.²⁰ According to U.S. National Intelligence Manager for the Middle East David Cattler the U.S. intelligence community continues to hunt for the funds.²¹ In fact, the UN Monitoring Team recently reported that the lack of information on the current state of IS finances was of “immediate concern.”²²

The Islamic State is apparently still able to move funds across borders using money exchange houses and hawala dealers, including to provide financial support to affiliates overseas—although “the extent of such support is unclear, and may be declining,” according to the UN Monitoring Team.²³ Some of these funds appear to have gone to or through Turkey, via hawala dealers on the Syria/Turkish border, and possibly via other militants based in Idlib province. IS-linked exchangers likewise claim to have sent millions of dollars through other militant organizations there, then onward to Europe.²⁴ In mid-March 2018, Turkish police raided a currency exchange in Istanbul with alleged ties to the Islamic State, arresting two and recovering

http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/14/rev.1; Daragahi, Borzou, “After The Black Flag of ISIS, Iraq Now Face The White Flags,” *Buzzfeed News*, Apr. 1, 2018, https://www.buzzfeed.com/borzoudaragahi/isis-iraq-white-flags-syria-new-name?utm_term=.pvPKYBjz#.pxPLenvDJ

¹⁷ United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

¹⁸ Magdy, Sam & Sweilam, Ashraf, “Militants rob bank, attack church in Egypt’s Sinai; 7 dead,” Associated Press, Oct. 16, 2017, <https://apnews.com/9b6b816cc2c645dfab8c4460cc84876e>

¹⁹ United Nations Security Council, “Twentieth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Jun. 30, 2017, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573; United Nations Security Council, “Twenty-first report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” Dec. 31, 2017, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/14/rev.1

²⁰ “Islamic State has been stashing millions of dollars in Iraq and abroad,” *The Economist*, Feb. 22, 2018, <https://www.economist.com/news/middle-east-and-africa/21737302-their-so-called-caliphate-crumbles-jihadists-are-saving-up-fight>

²¹ Cattler, David, “A Survey of the Near East: Implications for U.S. National Security,” The Washington Institute for Near East Policy, March 13, 2018, <https://www.washingtoninstitute.org/policy-analysis/view/a-survey-of-the-near-east-implications-for-u.s.-national-security>

²² United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

²³ “Twentieth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” United Nations Security Council, Jun. 30, 2017. Web. http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/573; Twenty-first report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da’esh), Al-Qaida and associated individuals and entities,” United Nations Security Council, Dec. 31, 2017. Web. http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/14/rev.1

²⁴ Solomon, Erika, “Isis finds escape route for the profits of war,” *Financial Times*, Aug. 23, 2017, <https://www.ft.com/content/b2f616d4-8656-11e7-8bb1-5ba57d47eff7>

\$1.3 million, as well as gold, silver, British pounds, and weapons.²⁵ In August 2017, the U.S. and Iraq jointly designated IS Finance Emir Salim al Mansur, who is believed to have moved from Iraq to Turkey in early 2017.²⁶

Funds abroad were also used for procurement purposes. In February 9, 2018, the U.S. designated Yunus Emre Sakarya and his company Profesyoneller Elektronik, in Turkey due to his involvement in procuring UAV equipment worth \$500,000 in 2016 for the Islamic State.²⁷

A study of improvised explosive device (IED) procurement by Conflict Armament Research published in December 2017 revealed that IS obtained components for IED through money service businesses and front companies, which purchased the components for IS from legitimate suppliers.²⁸ The United Nations Monitoring Team warned in July 2018 that IS was likely to increase its use of IED as it reverts back to asymmetric tactics. The Monitoring Team said that IS in Afghanistan was reportedly using an IED precursor—ammonium nitrate—preferred by the group and that an attempt to smuggle the compound to Libya had been disrupted in January 2018.²⁹

Exchange Houses

The Islamic State often used exchange houses to collect international funds, pay its fighters and employees, and make purchases.³⁰ With the majority of its territory lost, exchange houses are now particularly useful to move funds out of Syria and Iraq. Iraqi authorities have taken a number of actions against exchange houses to isolate the Islamic State from the international financial system. In December 2015, the Central Bank of Iraq banned 142 currency-exchange houses from participating in Central Bank currency auctions based on concerns that they were moving funds for the Islamic State.³¹ On December 13, 2016, the United States, in collaboration with the Government of Iraq, sanctioned Selselat al Thahab Money Exchange in Iraq for facilitating the movement of funds on behalf of IS.³² Again, in June 2017, Washington took joint action with the Government of Iraq against Umar al-Kubaysi and his al-Kawathar money

²⁵ “Turkish police discover around \$2M in cash in Istanbul office of 2 Daesh-linked suspects,” *Daily Sabah*, Apr. 4, 2018, <https://www.dailysabah.com/war-on-terror/2018/04/04/turkish-police-discover-around-2m-in-cash-and-gold-in-istanbul-office-of-2-daesh-linked-suspects>

²⁶ U.S. Department of the Treasury, “Treasury Collaborates with Iraqi Government to Sanction ISIS Finance Emir,” press release, Aug. 29, 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0149.aspx>

²⁷ U.S. Department of the Treasury, “Treasury Sanctions ISIS Facilitators Across the Globe,” press release, Feb. 9, 2018, <https://home.treasury.gov/news/press-release/sm0284>

²⁸ “Reports: Weapons of the Islamic State,” Conflict Armament Research, Dec. 2017, <http://www.conflictarm.com/reports/weapons-of-the-islamic-state/>

²⁹ United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>

³⁰ Warrick, Joby, “Inside the economic war against the Islamic State,” *The Washington Post*, Dec. 31, 2016, https://www.washingtonpost.com/world/national-security/take-them-back-to-the-19th-century-inside-the-economic-war-against-the-islamic-state/2016/12/30/5f91f514-ccb7-11e6-a747-d03044780a02_story.html?noredirect=on&utm_term=.8fde058f964e

³¹ Bauer, Katherine and Levitt, Matthew, “Denying the Islamic State Access to Money-Exchange Houses,” *The Washington Institute for Near East Policy*, February 3, 2016, <http://www.washingtoninstitute.org/policy-analysis/view/denying-the-islamic-state-access-to-money-exchange-houses>

³² U.S. Department of the Treasury, “Treasury Sanctions Senior ISIL Financier and Two Money Services Businesses,” press release, Dec. 13, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/j10684.aspx>

exchange firm. According to the Treasury, al-Kawathar reconciled approximately \$2.5 million with another Iraq-based IS-associated money exchange company, as well as the previously-sanctioned Syria-based Hanifa Currency Exchange, and sent transfers to a Gulf-based company, which was co-owned by two suspected IS facilitators.³³

The risk of exchange houses being exploited by terrorist financiers is not new. The Islamic State has taken advantage of the same informal or weakly regulated channels as other illicit financial actors such as Iran have done before. In a 2015 report on emerging terrorist financing typologies, the intergovernmental Financial Action Task Force highlighted the vulnerability of exchange companies and other remitters to terrorist financing where they are not regulated.³⁴ The exchange houses targeted by the Iraqi government are a prime example, since most were located in Islamic State-controlled areas outside the scope of Central Bank supervision. By denying such exchange houses access to dollar auctions, the Iraqi government effectively found a way to regulate these out-of-reach enterprises.

More broadly, it should be noted that in areas where banking services are largely inaccessible to segments of society, or unavailable altogether, exchange houses can provide a much-needed means of sending or receiving remittances, including humanitarian support in conflict zones and their environs. But they also present vulnerability as a potential conduit for comingling illicit funds with licit remittances. Even in nonconflict areas with sizable populations lacking bank access, exchange houses act as a bridge between cash-based informal economies and the banks upon which they rely to effect international transfers. But this layer can also help obfuscate the underlying party to a transaction and shield bad actors from the global financial institutions they transit. Regional regulators, therefore, must take decisive steps to wall off their financial systems from unlicensed or loosely regulated money remitters vulnerable to exploitation by illicit actors.

Despite these efforts, the group's credible threats of violence against enterprises in Syria, Iraq, and elsewhere will likely allow it to maintain a large sum, out of sight of authorities.³⁵ As information becomes available, authorities should prioritize targeting cross-border movement of funds as well as procurement efforts, which are particularly susceptible to disruption through public exposure because of the need to appear legitimate in order to complete purchases of dual use goods.

³³ U.S. Department of the Treasury, "Treasury Sanctions Iraq-based ISIS Financial Facilitation Network," press release, June 15, 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0109.aspx>

³⁴ "FATF Report: Emerging Terrorist Financing Risks," Financial Action Task Force, October, 2015. <http://www.fatf-gafi.org/media/fatf/documents/reports/Emerging-Terrorist-Financing-Risks.pdf>

³⁵ Johnston, Patrick B. "Oil, Extortion Still Paying Off for ISIS," *The Cipher Brief*, Oct. 27, 2017, <https://www.thecipherbrief.com/article/middle-east/oil-extortion-still-paying-off-isis>

AL-QAEDA

As the Islamic State burst onto the scene and quickly dominated the threat landscape, its financial underpinnings drew significant attention. Al-Qaeda funding, however, became less of a focus as IS overshadowed its precursor. Al-Qaeda financing also grew more difficult to track as the group took a back seat to the Islamic State and its financial infrastructure labored under the increasing irrelevance of its traditional core in Afghanistan. But al-Qaeda has more recently been able to exploit its safe havens in Syria and relocated some senior leaders to the country from South Asia. There and elsewhere, such as in Yemen, al-Qaeda has rebuilt its financial baseline. Altogether, the threat from al-Qaeda persists, and understanding its sources of revenue and resources is therefore critically important.³⁶

As most al-Qaeda affiliates have diversified their fundraising methods away from reliance on individual donors and the exploitation of charitable flows in order to mask their transactions, they have become less dependent on the core. The beginnings of this decentralizing trend could be recognized years ago with the rise of a reverse-directional flow of money going from affiliates toward the increasingly impoverished core.³⁷ In a 2005 letter to Abu Musab al-Zarqawi, then leader of AQI, Ayman al-Zawahiri, then al-Qaeda's number two, asked for money, noting that "many of the lines [of financing] had been cut off. Because of this we need a payment..."³⁸ Documents recovered from AQI in 2009 revealed that, in the intervening years, Zarqawi's organization, then called the Islamic State in Iraq and led by Abu Omar al-Baghdadi, had made a strategic decision to derive revenues locally to avoid foreign dependence and direction.³⁹

Experts have also noted an increase in collaboration and assistance among and between al-Qaeda branches. For example, a January 2017 UN report claimed that al-Shabab in East Africa has "relied on financial, logistical, and ideological guidance" from al-Qaeda in the Arabian Peninsula (AQAP).⁴⁰ Similarly, the UN reported, al-Qaeda in the Indian Subcontinent (AQIS) has taken on "a more active supporting role" for Taliban groups in Afghanistan.⁴¹ Indeed, there is historical precedent for such cooperation. A letter between the leaders of AQAP and al-Qaeda in the Islamic Maghreb (AQIM) in 2012 discussed kidnapping for ransom, calling the tactic a "profitable trade and a precious treasure."⁴²

³⁶ Portions of this section are drawn from Bauer, Katherine and Matthew, Levitt, "Al Qaeda Financing: Selected Issues," in Zelin, Aaron, "How Al-Qaeda Survived Drones, Uprisings, and the Islamic State," The Washington Institute for Near East Policy, June 2017, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>

³⁷ Levitt, Matthew and Michael Jacobson, "The Money Trail," The Washington Institute for Near East Policy, November 2008, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus89.pdf>

³⁸ Letter from Ayman al-Zawahiri to Abu Musab al-Zarqawi, July 9, 2005; English translation available at <https://etc.usma.edu/app/uploads/2013/10/Zawahiris-Letter-to-Zarqawi-Translation.pdf>

³⁹ Patrick B. Johnston et al., *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005–2010* (Santa Monica, CA: RAND Corporation, 2016). Web. http://www.rand.org/content/dam/rand/pubs/research_reports/RR1100/RR1192/RAND_RR1192.pdf.

⁴⁰ United Nations Security Council, "Nineteenth Report of the Analytical Support and Sanctions Monitoring Team established pursuant to resolution 1526 (2004), January 13, 2017, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/35.

⁴¹ Ibid.

⁴² United Nations Security Council, "Nineteenth Report of the Analytical Support and Sanctions Monitoring Team established pursuant to resolution 1526 (2004), January 13, 2017, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/35.

For years, al-Qaeda affiliates have pursued more diverse funding streams as compared to the core, most prominently engaging in such tactics as kidnapping for ransom and extortion. In northwest Africa, AQIM received roughly \$100 million in ransom payments between 2008 and 2014, according to estimates.⁴³ In 2016, the U.S. Department of State reported that AQIM continued to conduct kidnapping-for-ransom operations, primarily targeting Westerners whose governments were known to pay ransoms.⁴⁴ In Somalia, al-Shabab generated as much as \$25 million in revenue from the illicit charcoal trade alone when it controlled Kismayo port, according to the UN Monitoring Group on Somalia and Eritrea.⁴⁵ In Yemen in 2015 AQAP took advantage of the ongoing conflict between the internationally recognized government of Abdu Rabu Mansour Hadi and the Houthi rebels, backed by now-deceased former president Ali Abdullah Saleh, to take control of parts of Hadramawt governorate, seizing perhaps \$100 million from a Central Bank branch,⁴⁶ extorting funds from the national oil company, and raising as much as \$2 million per day in taxes on goods and fuel coming into the port of al-Mukalla.⁴⁷ Today, observers note more “terrorist economies”: areas where groups take advantage of weak, corrupt states lacking rule of law or even full territorial control to tax, extort, and exploit local resources.

Al-Nusrah Front

The rise of al-Qaeda’s Syrian affiliate, al-Nusrah Front (ANF) brought new opportunities for the organization both operationally and financially. Al-Qaeda leadership considers the Levant to be of strategic importance for the group’s future. A 2016 UN Security Council report claimed that al-Nusrah “remains one of the most effective branches of Al Qaeda worldwide.”⁴⁸ The group’s budget could have been as much as \$10 million a year in 2016, according to a U.S. official.⁴⁹ Although ANF’s split with the Islamic State in April 2013 undoubtedly hurt its bottom line, it is also possible that ANF’s financial needs are relatively small: the group reportedly does not pay salaries to foreign fighters and can extort military and other nonlethal support from moderate groups in exchange for allowing them to operate in northern Syria. In addition, a crucial aspect of al-Nusrah’s long-term strategy has been to minimize its control over populated

Resolution 2083 (2012) concerning al-Qaida and Associated Individuals and Entities” January 23, 2014, http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S_2014_41.pdf.

⁴³ Rukmini Callimachi, “Paying Ransoms, Europe Bankrolls Qaeda Terror,” *New York Times*, July 29, 2014, <https://www.nytimes.com/2014/07/30/world/africa/ransoming-citizens-europe-becomes-al-qaedas-patron.html>.

⁴⁴ U.S. Department of State, *Country Reports on Terrorism 2015*, <https://www.state.gov/j/ct/rls/crt/2015/index.htm>.

⁴⁵ United Nations Security Council, Report of the Monitoring Group on Somalia and Eritrea, July 12, 2013, http://www.un.org/ga/search/view_doc.asp?symbol=S/2013/413.

⁴⁶ United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>.

⁴⁷ Yara Bayoumy et al., “How Saudi Arabia’s War in Yemen Has Made al Qaeda Strong—and Richer,” *Reuters*, April 8, 2016, <http://www.reuters.com/investigates/special-report/yemen-aqap/>.

⁴⁸ United Nations Security Council, “Eighteenth Report of the Analytical Support and Sanctions Monitoring Team Submitted pursuant to Resolution 2253 (2015) concerning Islamic State in Iraq and the Levant (Da’esh), al-Qaida and Associated Individuals and Entities,” July 19, 2016, <https://www.un.org/sc/ctc/wp-content/uploads/2016/09/MT-18th-report.pdf>.

⁴⁹ Nicole Magney and Paul Cruickshank, “A View from the CT Foxhole: Adam Szubin, Acting Under Secretary for Terrorism and Financial Intelligence, U.S. Dept. of Treasury,” *CTC Sentinel* 9, no. 8 (August 2016), <https://www.ctc.usma.edu/posts/a-view-from-the-ct-foxhole-adam-szubin-acting-under-secretary-for-terrorism-and-financial-intelligence-u-s-dept-of-treasury>.

areas within Syria, focusing instead on practical power-sharing arrangements and the socialization of civilians and armed groups into gradual acceptance of its power.⁵⁰ Thus, the affiliate has not been overly burdened by costs of governance. Although ANF “may earn some funds from external donations,” the UN reported in 2018 that the group “appears to be largely self-sufficient.”⁵¹ That al-Nusra is no longer reliant on foreign sources does not necessarily mean that the group no longer receives such support. However, it does likely mean that even if ANF foreign funding was disrupted, that alone would be insufficient to bankrupt the group.

ANF may have historically received as much as a few million dollars a year from private donors in the Gulf. U.S. Treasury designations of al-Nusra financiers based in Qatar and Kuwait paint a picture of what former Treasury undersecretary for terrorism and financial intelligence David Cohen called “permissive jurisdictions” for terrorist financing.⁵² For example, in August 2015, the U.S. Treasury designated Sa’ad bin Sa’d Muhammad Shariyan al-Ka’bi, a Qatari financier for ANF. Al-Ka’bi had reportedly “set up donation campaigns in Qatar to aid with fundraising in response to a request from an ANF associate for money to purchase both weapons and food.”⁵³ Gulf-based donors and fundraisers have long supported al-Qaeda core, as well as the group’s affiliates in Iraq and, more recently, Syria, often relying on an Iran-based facilitation network to move funds and operatives—including senior leaders—between the Gulf, South Asia, and the Levant.

The September 2014 designation of Abd al-Malik Abd al-Salam (aka Omar al-Qatari) demonstrates the connectivity between the various fundraising and facilitation networks. According to the Treasury Department, al-Qatari, a Jordanian with Qatari residency, provided “broad support” to ANF, including funds and material support. In 2011 and 2012, he worked with associates in Turkey, Syria, Lebanon, Qatar, and Iran to raise and move funds and weapons, and enable fighter travel, including with al-Qaeda facilitators Khalifa Muhammad Turki al-Subaiy in Qatar and Muhsin al-Fadhli, who was then heading the group’s network in Iran.⁵⁴ Facilitators he worked with recruited fighters among Syrian refugees in Turkey and coordinated weapons procurements via Lebanon for al-Nusra’s benefit. Qatari himself raised funds through the Internet for al-Qaeda, moved funds on behalf of Subaiy to al-Qaeda senior leaders, and delivered funds to Fadhli in Iran.⁵⁵

⁵⁰ Charles Lister, *Profiling Jabhat al-Nusra*, Brookings, 2016, https://www.brookings.edu/wp-content/uploads/2016/07/iwr_20160728_profiling_nusra.pdf.

⁵¹ United Nations Security Council, “Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015),” July 27, 2018, <http://undocs.org/S/2018/705>.

⁵² Ibid.

⁵³ U.S. Department of Treasury, “Treasury Designates Financial Supporters of Al-Qaida and Al-Nusra Front,” press release, August 5, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/j10143.aspx>.

⁵⁴ U.S. Department of the Treasury, “Treasury Designates Twelve Foreign Terrorist Fighter Facilitators,” press release, September 24, 2014, <https://www.treasury.gov/press-center/press-releases/Pages/j12651.aspx>.

⁵⁵ Ibid.

Al-Qaeda In Iran

For decades, Iran has provided safe haven to a central network of facilitators for al-Qaeda and its affiliates for moving money and aiding members' transit from South Asia to Syria.⁵⁶ According to a UN report released on July, 2018, "Al Qaeda leaders in the Islamic Republic of Iran have grown more prominent, working with Aiman al-Zawahiri and projecting his authority more effectively than he could previously."⁵⁷ The relationship between Iran and al-Qaeda is long and complicated, dating back to at least the mid-1990s, when al-Qaeda negotiated safe passage for its members from Sudan through Iran to Afghanistan. Later, some al-Qaeda members and their families sought safe haven in Iran following the U.S. invasion of Afghanistan. Although Iran arrested a number of al-Qaeda members residing within its borders in 2003—including Osama bin Laden's son Saad—it was unclear if they remained in custody and whether Iranian detention constrained their activities.⁵⁸ In 2009, then Treasury undersecretary Stuart Levey called on Iran to "give a public accounting of how it is meeting its international obligations to constrain al-Qaeda."⁵⁹

According to the State Department's 2016 *Country Reports on Terrorism*, Iran has "remained unwilling to bring to justice senior al-Qaeda members it continued to detain, and refused to publicly identify the members in its custody."⁶⁰ Over the last decade, U.S. sanctions against al-Qaeda have pointed to the significance of the Iran-based network.⁶¹ Sanctions actions in 2011 and 2012 highlighted "Al-Qaeda's critically important Iran-based funding and facilitation network"⁶² and sought to expose "Iran's secret deal with al-Qaeda allowing it to funnel funds and operatives through its territory,"⁶³ according to the U.S. Treasury.

Sanctions that exposed the Iran-based network initially, in July 2011, targeted six al-Qaeda members, including facilitators in Kuwait and Qatar. According to the Treasury Department, the network, led by Yasin al-Suri, was "collecting funding from various donors and fundraisers throughout the Gulf and was responsible for moving significant amounts of money via Iran for onward passage to al-Qaeda leadership in Afghanistan and Iraq."⁶⁴ Suri also worked with the Iranian government to secure the release of al-Qaeda personnel from Iranian prisons. In announcing a related action under the State Department's Rewards for Justice program later in

⁵⁶ U.S. Department of State, *Country Reports on Terrorism 2015*, <https://www.state.gov/documents/organization/258249.pdf>.

⁵⁷ United Nations Security Council, "Twenty-second report of the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015)," July 27, 2018, <http://undocs.org/S/2018/705>

⁵⁸ U.S. Department of the Treasury, "Treasury Targets Al Qaeda Operatives in Iran," press release, January 16, 2009, <https://www.treasury.gov/press-center/press-releases/Pages/hp1360.aspx>.

⁵⁹ Ibid.

⁶⁰ U.S. Department of State, *Country Reports on Terrorism 2016*, <https://www.state.gov/documents/organization/272488.pdf>

⁶¹ Bauer, Katherine and Matthew, Levitt, "Al Qaeda Financing: Selected Issues," in Zelin, Aaron, "How Al-Qaeda Survived Drones, Uprisings, and the Islamic State," The Washington Institute for Near East Policy, June 2017, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>

⁶² U.S. Department of the Treasury, "Treasury Further Exposes Iran-Based Al-Qaeda Network," press release, October 18, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1741.aspx>.

⁶³ U.S. Department of the Treasury, "Treasury Targets Key Al-Qaeda Funding and Support Network Using Iran as a Critical Transit Point," press release, July 28, 2011, <https://www.treasury.gov/press-center/press-releases/Pages/tg1261.aspx>.

⁶⁴ Ibid.

2011, a Treasury official said that Iranian authorities had maintained a relationship with Suri and “allowed him to operate within Iran’s borders since 2005.”⁶⁵

The Kuwaiti Muhsin al-Fadhli soon replaced Suri as al-Qaeda’s senior facilitator and financier in Iran.⁶⁶ Fadhli had been sanctioned in 2005 for financing aspects of the Iraqi insurgency, including “the Zarqawi network” and al-Qaeda. He had also been convicted by a Kuwaiti court and was wanted in Saudi Arabia for terrorism-related activities. According to the Treasury Department, Fadhli began working with the Iran-based network in 2009 but was later arrested by Iranian authorities. After being released in 2011, he assumed leadership of the network, which the State Department described as “a core facilitation pipeline through Iran, enabling al-Qaeda to move funds and fighters to South Asia and to Syria.” As of October 2012, according to the Treasury Department, al-Qaeda elements in Iran led by Fadhli were “working to move fighters and money through Turkey to support al-Qaeda affiliated elements in Syria,” as well as leveraging his extensive network of Kuwaiti jihadists to send money to Syria.⁶⁷ Fadhli was killed on July 8, 2015, by a U.S. airstrike in Syria, where he was reportedly leading a group of seasoned al-Qaeda operatives working with ANF in hopes of recruiting Europeans and Americans to conduct attacks in the West.⁶⁸

To further address al-Qaeda’s network in Iran, the U.S. Treasury in July 2016 announced new sanctions against three senior al-Qaeda members located in Iran. The sanctions, characterized by the Treasury as “action to disrupt the operations, fundraising, and support networks that help al-Qaeda move money and operatives from South Asia and across the Middle East,”⁶⁹ echo congressional testimony from National Counterterrorism Center director Nicholas Rasmussen earlier that year in which he raised concerns that al-Qaeda was exploiting safe havens in Syria “by relocating some of its remaining leadership cadre from South Asia to Syria.”⁷⁰ These sanctions again highlight the ease of travel for al-Qaeda facilitators and operatives in Iran, as well as their ongoing contact with Iranian officials and operational roles. One designee, Yisra Muhammad Ibrahim Bayumi, has been in Iran since 2014 and has served as a mediator with Iranian authorities. Abu Bakr Muhammad Muhammad Ghumayn appears to have traveled

⁶⁵ U.S. Department of State, “Briefing on New Rewards for Justice Reward Offer,” December 22, 2011, <https://2009-2017.state.gov/r/pa/prs/ps/2011/12/179654.htm>.

⁶⁶ U.S. Department of State, “Rewards for Justice—al-Qaeda Reward Offers,” October 18, 2012, <https://2009-2017.state.gov/r/pa/prs/ps/2012/10/199299.htm>.

⁶⁷ U.S. Department of Treasury, “Treasury Further Exposes Iran-Based Al-Qa’ida Network,” press release, October 18, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1741.aspx>.

⁶⁸ Eric Schmitt, “Leader of Qaeda Cell in Syria, Muhsin al-Fadhli, Is Killed in Airstrike, U.S. Says,” *New York Times*, July 21, 2015, https://www.nytimes.com/2015/07/22/world/middleeast/leader-of-qaeda-cell-in-syria-muhsin-al-fadhli-is-killed-in-airstrike-us-says.html?_r=0.

⁶⁹ U.S. Department of the Treasury, “Treasury Designates Three Senior al-Qaida Members,” press release, July 20, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/j10523.aspx>.

⁷⁰ Nicholas J. Rasmussen, “Worldwide Threats to the Homeland: ISIS and the new wave of terror,” Hearing before the Committee on Homeland Security, House of Representatives, One Hundred Fourteenth Congress, July 14, 2016, <https://www.gpo.gov/fdsys/pkg/CHRG-114hhrg25265/html/CHRG-114hhrg25265.htm>

between 2014 and 2015 to Iran, where he assumed control of the financing and organization of al-Qaeda members.⁷¹

Abuse of the Charitable Sector

Another way in which al-Qaeda has successfully raised funds is through abuse of the charitable sector. In the years after the September 11 attacks, disrupting terrorists' ability to abuse charitable giving as a means of raising, transferring, and laundering funds was a major focus of counterterrorism authorities around the world. Charities operating as fronts for terrorist groups were designated by national authorities and world bodies such as the UN, the charitable sector was encouraged to implement more sophisticated due-diligence procedures to protect the industry from abuse, and governments engaged in outreach and information campaigns.⁷²

Thus, for a while, it seemed like terrorist abuse of charity had dissipated as a preferred illicit-finance typology. Then came the war in Syria and a series of other conflicts across the Middle East and North Africa, and the issue was back on the agenda as a counterterrorism priority. Consider AQAP, which as of January 2017 "continue[d] to receive significant donations, including under the cover of charitable organizations."⁷³ As conflicts continue with no end in sight across the Middle East and North Africa—from Syria to Yemen to Libya—charities are crucial for alleviating the accompanying humanitarian crises.

While terrorism financing through the abuse of charities has returned, there is not the same emphasis on large-scale false fronts as before 9/11. Facilitated by the rise of social media, fundraisers can now more easily set up false fronts online. Hajjaj al-Ajmi, who was sanctioned by the UN in 2014, used Twitter to solicit donations for ANF.⁷⁴ Some have even openly crowdsourced donations for ANF and other jihadist groups operating in Syria, such as Saad bin Saad al-Kaabi, who posted solicitations on Facebook and WhatsApp accounts for "arming, feeding and treating" fighters in Syria.⁷⁵ Kaabi was listed at the UN in 2015.⁷⁶

Fundraisers have also used social media to thank and confirm to donors the delivery of funds and material support to jihadist groups. In a video uploaded to YouTube in October 2016, U.S.-

⁷¹ U.S. Department of the Treasury, "Treasury Designates Three Senior al-Qaeda Members," press release, July 20, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0523.aspx>.

⁷² U.S. Department of the Treasury, "Typologies and Open Source Reporting on Terrorist Abuse of Charitable Operations in Post-Earthquake Pakistan and India," https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/charities_post-earthquake.pdf.

⁷³ UN Security Council, "Nineteenth Report of the Analytical Support and Sanctions Monitoring Team Submitted pursuant to Resolution 2253 (2015) concerning ISIL (Da'esh), al-Qaida and Associated Individuals and Entities," S/2017/35, January 13, 2017, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2017/35.

⁷⁴ UN Security Council, "Narrative Summary of Reasons for Listing: Hajjaj bin Fahd al Ajmi," August 15, 2014, https://www.un.org/sc/suborg/en/sanctions/1267/qa_sanctions_list/summaries/individual/hajaj-bin-fahd-al-ajmi.

⁷⁵ "Are Terrorists Raising Money in Qatar?" *CNN*, video clip, 7:14, <http://www.cnn.com/videos/us/2014/06/18/erin-dnt-qatar-terror-fundraiser.cnn>.

⁷⁶ UN Security Council, "Narrative Summary of Reasons for Listing: Sa'd bin Sa'd Muhammad Shariyan al-Kabi," September 21, 2015, https://www.un.org/sc/suborg/en/sanctions/1267/qa_sanctions_list/summaries/individual/sa-d-bin-sa-d-muhammad-shariyan-al-ka-bi.

designated ANF financier Abd Allah bin Muhammad al-Muhaysini thanked Gulf donors for supporting jihadists in Syria:

“As for the businessmen, and I will mention some of them, the ones who prepared these hundred rockets, may God reward them. One hundred Elephant rockets...some from a group of brothers in Islan from Riyadh, some from our brother Abu Ahmad from Kuwait, some from our brother Abu al-Jud from Qatar, and some from brothers I have not mentioned... I tell all the businessmen of the Muslims, this is your money now, fighting in the path of God.”⁷⁷

According to the U.S. Treasury, between 2013 and 2015, Muhaysini raised millions of dollars for ANF, claiming himself that he had secured \$5 million in donations to arm fighters.⁷⁸

Nevertheless, cases of major charity fronts remain, and large-scale organizations funneling money to al-Qaeda continue to come to light. For example, Saudi Arabia and the United States jointly acted against the al-Furqan Foundation Welfare Trust in May 2015. The U.S. Treasury identified al-Furqan as the successor entity to two organizations it had previously designated, the Afghan Support Committee and the Revival of Islamic Heritage Society, and described al-Furqan as a “charitable organization that is a major conduit of financial and material support for terrorist groups...in some cases under the guise of humanitarian work.” In addition to charging that it supported al-Qaeda, the Treasury denounced al-Furqan for aiding the Taliban and the Pakistani jihadist group Lashkar-e-Taiba. Simultaneously, Saudi Arabia designated al-Furqan under its own counterterrorism laws.⁷⁹

Less than a year later, the United States and Saudi Arabia again took joint action against four individuals and two organizations for supporting the same three terrorist groups in Afghanistan and Pakistan. Among those sanctioned were the Scottish-born jihadist James McLintock and the al-Rahmah Welfare Organization (RWO), of which McLintock was the president, CEO, and chairman. According to the Treasury Department, RWO and other associated outfits received “large amounts of money from British donors who were not aware of the NGOs’ Taliban ties.” Whereas the Treasury statement cited McLintock for supporting a variety of terrorist groups in Afghanistan and Pakistan, he also appeared to be involved in Syria.⁸⁰

⁷⁷ al-Muhaysini, Abdullah. “Sheikh al-Muhaysini Announces Beginning of Breaking Siege of Aleppo and Fires 100 Elephant Rockets”. YouTube video, 12:02. Posted October 2016, since removed date unknown. See Zelin, Aaron Y, “Policy Focus 153:How Al-Qaeda Survived Drones, Uprisings, and the Islamic State: The Nature of the Current Treat,” The Washington Institute for Near East Policy, June 2017. <http://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>

⁷⁸ U.S. Department of the Treasury, “Treasury Designates Key al-Nusra Front Leaders,” press release, November 10, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/j10605.aspx>.

⁷⁹ U.S. Department of the Treasury, “The U.S. and Saudi Arabia Take Joint Action against Terrorist Financing Entity Attempting to Evade U.S. and UN Sanctions and Violate Saudi Laws,” press release, April 7, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/j10019.aspx>.

⁸⁰ U.S. Department of the Treasury, “United States and Saudi Arabia Designate Terrorist Fundraising and Support Networks,” press release, March 31, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/j10400.aspx>.

IRANIAN SUPPORT FOR TERRORISM

As the foremost state sponsor of terrorism, Iran provides hundreds of millions of dollars a year to proxies in the Levant, and increasingly across the Middle East. Beyond funding, Iran also provides training, and arms and equips its terrorist proxies. This is primarily done through the Islamic Revolutionary Guards Corps' (IRGC) Qods Force or IRGC-QF, the branch of the IRGC responsible for external operations, as well as increasingly via its chief proxy Lebanese Hezbollah.⁸¹

Beginning in the mid-2000s, the U.S.-led financial constriction campaign against Iran drew attention to Iran's use of deceptive financial practices to move funds to its terrorist proxies. In 2007, the U.S. Treasury Department sanctioned Iran's state-owned Bank Saderat for transferring "\$50 million from the Central Bank of Iran through its subsidiary in London to its branch in Beirut for the benefit of Hezbollah fronts in Lebanon that support acts of violence."⁸²

In recent actions, the U.S. government has brought a renewed focus to this behavior. In November 2017, the Treasury announced new sanctions against a network circumventing European export control restrictions to procure materials to print counterfeit Yemeni banknotes "potentially worth hundreds of millions of dollars to support Iran's destabilizing activities."⁸³ In May 2018, the United States and the United Arab Emirates acted jointly to disrupt a currency exchange network using UAE-based exchange houses to acquire U.S. dollar banknotes for use by the IRGC-QF.⁸⁴ And, the following week, the then-Governor of the Central Bank of Iraq, Valiollah Seif, was included in a round of sanctions that included an Iraq-based bank and a Hezbollah official. According to the Treasury, Seif "conspired with the IRGC-QF to move millions of dollars...to allow the IRGC-QF to fund its activities abroad."⁸⁵ The transfers were routed through the Iraqi al-Bilad Islamic Bank for the benefit of Hezbollah.⁸⁶

Although substantial attention has been given to Iran's efforts to establish a "land bridge" in the Levant, the IRGC-QF has, for years, used an air bridge to move weapons and fighters to and from training in Iran. In 2011, the United States sanctioned Iranian carrier Mahan Air for

⁸¹ Eisenstadt, Michael, "Shia Militias as a Military," in Ghaddar, Hanin, "Iran's Foreign Legion," Policy Note 46, Washington Institute for Near East Policy, February 2018. <https://www.washingtoninstitute.org/policy-analysis/view/irans-foreign-legion-the-impact-of-shia-militias-on-u.s.-foreign-policy>

⁸² U.S. Department of the Treasury. "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. <https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>

⁸³ "Under Secretary Sigal Mandelker Speech before the Foundation for the Defense of Democracies," Press Release, U.S. Department of the Treasury, June 5, 2018, <https://home.treasury.gov/news/press-releases/sm0406>; "Treasury Designates Large-Scale IRGC-QF Counterfeiting Ring," Press Release, U.S. Department of the Treasury, November 20, 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0219.aspx>.

⁸⁴ "United States and United Arab Emirates Disrupt Large Scale Currency Exchange Network Transferring Millions of Dollars to the IRGC-QF," Press Release, U.S. Department of the Treasury, May 10, 2018, <https://home.treasury.gov/news/press-releases/sm0383>

⁸⁵ "Treasury Targets Iran's Central Bank Governor and an Iraqi Bank Moving Millions of Dollars for IRGC-Qods Force," Press Release, U.S. Department of the Treasury, May 15, 2018, <https://home.treasury.gov/news/press-releases/sm0385>.

⁸⁶ "Under Secretary Sigal Mandelker Speech before the Foundation for the Defense of Democracies," Press Release, U.S. Department of the Treasury, June 5, 2018, <https://home.treasury.gov/news/press-releases/sm0406>.

“secretly ferrying operatives, weapons and funds on its flights.”⁸⁷ The airline “provided travel services to IRGC-QF personnel flown to and from Iran and Syria for military training,” and “transported personnel, weapons and goods on behalf of Hezbollah.”⁸⁸ Mahan also briefly made passenger flights from Tehran to Sana in the spring of 2015, not long after Houthi rebels took control of the Yemeni capital. These continued until the Saudi-led coalition bombed the tarmac to prevent a Mahan plane from landing.⁸⁹ Despite remaining on U.S. sanctions lists, Mahan opened new routes to Moscow, Kiev, Copenhagen, and Paris in the first year after the Iran nuclear deal came into force.⁹⁰

Since its 2011 designation, more than 200 individuals and entities associated with Mahan Air have been added to U.S. sanctions lists.⁹¹ Most recently, in July 2018, the Treasury designated a Malaysia-based General Sales Agent (GSA) acting on behalf of Mahan.⁹² Treasury Secretary Steven Mnuchin put the airline industry “on notice,” stating: “The United States government has been very clear about the deadly role played by Mahan Air. Our action against an independent company providing General Sales Agent services to Mahan makes clear to all in the aviation industry that they urgently need to sever all ties and distance themselves immediately from this airline.”⁹³

Hezbollah

In addition to substantial Iranian support, Hezbollah has for decades helped fund its terrorist and social service initiatives through a diverse portfolio of criminal and commercial activities, relying on a worldwide network not only for financial, but also logistical and even operational support. This includes from large Lebanese diaspora communities, especially in West Africa and South America. In the tri-border area of Paraguay, Argentina, and Brazil, for instance, supporters have taken advantage of loosely regulated territory to engage in a range of illicit activities including fundraising and money laundering for the benefit of Hezbollah.⁹⁴

These networks have come under pressure in recent years following a series of U.S. actions that have constrained Hezbollah’s finances, and prompting Hezbollah secretary-general Hassan

⁸⁷ “Treasury Designates Iranian Commercial Airline Linked to Iran’s Support for Terrorism,” Press Release, U.S. Department of the Treasury, October 12, 2011, <https://www.treasury.gov/press-center/press-releases/Pages/tg1322.aspx>

⁸⁸ Ibid.

⁸⁹ “First Iran Flight Lands in Shiite-Held Yemen Capital,” *National*, March 1, 2015, <http://www.thenational.ae/world/middle-east/first-iran-flight-lands-in-shiite-held-yemen-capital>; Mohammed Ali Kalfoud and Kareem Fahim, “Saudis Hit a Yemeni Airport, Possibly Closing Aid Route,” *New York Times*, April 28, 2015, <http://www.nytimes.com/2015/04/29/world/middleeast/saudis-hit-a-yemeni-airport-possibly-closing-aid-route.html>.

⁹⁰ See Mahan Air Press Room, <http://www.mahan.aero/en/contact/press-room>.

⁹¹ Nadimi, Farzin. “Treasury Increases the Pressure on Iranian Airlines,” *The Washington Institute for Near East Policy*, June 1, 2018, <https://www.washingtoninstitute.org/policy-analysis/view/treasury-increases-the-pressure-on-iranian-airlines>

⁹² “Treasury Designates Mahan Air Service Provider,” Press Release, U.S. Department of the Treasury, July 9, 2018, <https://home.treasury.gov/news/press-releases/sm423>

⁹³ Ibid.

⁹⁴ Levitt, Matthew. “Hezbollah’s Criminal Networks: Useful Idiots, Henchmen, and Organized Criminal Facilitators”. In: Matfess, Hilary and Mikalucic, Michael, ed., *Beyond Convergence: World Without Order*. Washington, DC.: Center for Complex Operations, Institute for National Strategic Studies, National Defense University.

Nasrallah in July 2016 to (falsely) insist that Hezbollah is exclusively funded by Iran.⁹⁵ His remarks came after Lebanese authorities moved to comply with U.S. legislation—the Hezbollah International Financing Prevention Act (HIFPA)—that put Lebanese banks at risk of being cut off from the U.S. financial system if they did business with designated Hezbollah-affiliates. Hundreds of such Hezbollah-linked accounts were closed, threatening the militia’s social support network and commercial interests.⁹⁶

HIFPA hit especially hard because of a multiyear effort by the U.S. Treasury to target Hezbollah business interests used both to generate revenue and provide commercial cover. Notably, in June 2015, the U.S. designated Adham Tabaja and his al-Inmaa Engineering Contracting group, which had been used “to obtain oil and construction development projects in Iraq that provide both financial support and organizational infrastructure to Hezbollah.”⁹⁷ According to the Treasury, Tabaja maintained direct ties to senior Hezbollah organizational elements and held properties in Lebanon on behalf of the group. Al-Inmaa Engineering and Contracting had been used by Hezbollah as an investment vehicle dating to at least the mid-2000s. “More recently” the Iraqi branches of Tabaja’s firm have provided “organizational infrastructure” to Hezbollah. Tabaja associate Kassem Hejejj opened bank accounts for Hezbollah in Lebanon and Iraq and “provided credit to Hezbollah procurement companies.” Another Tabaja associate, Husayn Ali Faour, managed the Lebanon-based Car Care Center, a front company used to supply Hezbollah’s vehicle needs.⁹⁸

Another example is Kassim Tajideen, designated in May 2009 for being “an important financial contributor to Hezbollah who operates a network of businesses in Lebanon and Africa.” Tajideen also contributed to Hezbollah and funneled money through his brother, a Hezbollah commander and ran “cover companies” for Hezbollah in Africa.⁹⁹ In December 2010, Treasury designated Kassim Tajideen’s brothers and business partners, Ali Tajideen and Hussein Tajideen, for “providing support to Hizballah.” Stuart Levey, Under Secretary for Terrorism and Financial Intelligence at the time, regarded Ali Tajideen and Hussein Tajideen as “two of Hizballah’s top financiers in Africa,” stating that their “multinational network generates millions of dollars in funding” and “secures strategic geographical strongholds for Hizballah.”¹⁰⁰ Arrested by

⁹⁵ <https://www.washingtoninstitute.org/policy-analysis/view/targeting-hezbollahs-home-front-finances>

⁹⁶ Schenker, David and Bauer, Katherine, “Targeting Hezbollah’s Home-Front Finances,” The Washington Institute for Near East Policy, July 5, 2016, <https://www.washingtoninstitute.org/policy-analysis/view/targeting-hezbollahs-home-front-finances>.

⁹⁷ “Treasury Sanctions Hizballah Front Companies and Facilitators in Lebanon And Iraq,” Press Release, U.S. Department of the Treasury, June 20, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/jl0069.aspx>.

⁹⁸ U.S. Department of the Treasury, “Treasury Sanctions Hizballah Front Companies and Facilitators in Lebanon and Iraq,” press release, June 10, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/jl0069.aspx>.

⁹⁹ U.S. Department of the Treasury, “Treasury Targets Hizballah Network in Africa,” press release, May 27, 2009, <https://www.treasury.gov/press-center/press-releases/Pages/tg149.aspx>.

¹⁰⁰ U.S. Department of the Treasury, “Treasury Targets Hizballah Financial Network,” press release, December 9, 2010, <https://www.treasury.gov/press-center/press-releases/Pages/tg997.aspx>.

Moroccan authorities on March 12, 2017 based on a U.S. indictment, Kassim Tajideen was extradited from Morocco to the United States later that month.¹⁰¹

IRGC-QF has also used commercial cover to move funds to Hezbollah. In February 2017, Beirut-based QF official Hasan Dehghan Ebrahimi was called out for facilitating millions of dollars' worth of cash transfers to Hezbollah, including through U.S.-designated Hezbollah construction firm Wa'ad Company. According to Treasury, Ebrahimi used a network of Lebanon-based companies with ties to the broader Middle East to transfer funds, launder money, and conduct business."¹⁰²

Separately, in 2016, the U.S. Drug Enforcement Agency announced that, in cooperation with European authorities, it had uncovered a dedicated Hezbollah unit for drug trafficking and money laundering of drug proceeds, resulting in the arrest of members of the network's European cell. The proceeds were used to finance arms purchases for Hezbollah in Syria.¹⁰³

In May 2016, a U.S. official told Congress that Hezbollah was "in its worst financial shape in decades."¹⁰⁴ There are no indications that this has changed. As more of the group's funding from Iran is dedicated to regional military operations—both those of Hezbollah and the other regional Iranian proxies—Hezbollah has been forced to cut some social services it provides to its Shia base in Lebanon.¹⁰⁵ Nasrallah recently acknowledged the group's "financial crisis," according to Lebanese press.¹⁰⁶ Hezbollah has ramped up public fundraising efforts in recent years, posting calls for donations on billboards, running advertisements on Hezbollah's al-Manar television station and launching an on-line campaign urging supporters to send funds to "equip a mujahid."¹⁰⁷

As the administration moves in November to fully reimplement U.S. nuclear sanctions suspended under the Iran nuclear deal, it's important to remember that even in time of economic crisis, Iran has historically prioritized funding its external activities, including through the

¹⁰¹ Spencer S. Hsu, "Lebanese Businessman, Hezbollah Supporter, Charged with Evading U.S. Terror Sanctions," *Washington Post*, March 24, 2017, sec. Public Safety, https://www.washingtonpost.com/local/public-safety/lebanese-businessman-hezbollah-supporter-charged-with-evading-us-terror-sanctions/2017/03/24/979dfb2d-10b6-11e7-ab07-07d9f521f6b5_story.html; *United States of America v. Kassim Tajideen and Imad Hassoun*, Indictment, United States District Court for the District of Columbia, Filed March 7, 2017, <https://www.justice.gov/opa/press-release/file/952071/download>.

¹⁰² U.S. Department of the Treasury "Treasury Sanctions Supporters of Iran's Ballistic Missile Program and Iran's Islamic Revolutionary Guard Corps—Quds Force," February 3, 2017. <https://www.treasury.gov/press-center/press-releases/Pages/as0004.aspx>

¹⁰³ U.S. Drug Enforcement Administration. "DEA and European Authorities Uncover Massive Hizballah Drug and Money Laundering Scheme," February 1, 2016, <https://www.dea.gov/press-releases/2016/02/01/dea-and-european-authorities-uncover-massive-hizballah-drug-and-money>.

¹⁰⁴ "Hezbollah in 'worst financial shape in decades,' US says," *The Times of Israel*, May 25, 2016,

<http://www.timesofisrael.com/hezbollah-in-worst-financial-shape-in-decades-us-says/>

¹⁰⁵ Ghaddar, Hanin, "Hezbollah's Women Aren't Happy" *The Washington Institute for Near East Policy*, October 12, 2016, <http://www.washingtoninstitute.org/policy-analysis/view/hezbollahs-women-arent-happy>.

¹⁰⁶ Bayram, Ibrahim, "Hezbollah turns to charity amid economic woes," *An-Nahar*, August 23, 2018,

<https://en.annahar.com/article/847815-hezbollah-turns-to-charity-amid-economic-woes>

¹⁰⁷ "Hezbollah Asks for Support on Billboards and Posters," *Al Arabiya*, June 7, 2017,

<https://english.alarabiya.net/en/News/middle-east/2017/06/07/Hezbollah-asks-for-support-on-billboards.html> ;

"Hizballah Launches Online Fundraising Campaign," MEMRI, February 10, 2017, <http://cjlal.memri.org/lab-projects/tracking-jihadi-terrorist-use-of-social-media/hizballah-launches-online-fundraising-campaign/>

allocation of limited hard currency. Consider, for instance, the case of IRGC-QF exploitation of Emirati exchange houses to procure U.S. dollar bank notes to further its destabilizing regional activities. As the value of the Iranian rial continues to fall and oil revenues shrink making foreign exchange more scarce, providing such support will come at an even greater cost to the regime.

RESPONSES: ARE COUNTER-TERRORIST FINANCING POLICIES EFFECTIVE?

Although the cost of an individual terrorist attack may be small, terrorist organizations rely on a steady flow of funds to support operational costs such as salaries, training, transportation, recruitment, and even propaganda. Understanding how a terrorist organization manages its assets is critical to depriving the organization of funds and disrupting its activities in the long term.¹⁰⁸ Indeed, an organization's calculation of how and where to raise funds is determined by a number of factors including ideological, geographical, and practical concerns. Likewise, how much funding an organization requires is determined by its size and objectives. Organizations that control territory, engage in insurgency, or provide social services require additional resources. The larger and more complex an organization's mission, the greater need it has for specialized procedures and personnel to handle financial matters. For example, the Islamic State recruited "an army of accountants";¹⁰⁹ Al-Qaeda is known for requiring receipts¹¹⁰; and the 9/11 hijackers even reportedly returned their remaining funds days before the attacks.¹¹¹ Such operations create vulnerabilities to detection and serve as key nodes for disruption.

As terrorist financing typologies evolve, responses from the international community to counter such threats must also adapt. In the decade following the 9/11 attacks in the United States, counter-terrorist financing efforts focused on identifying and disrupting so-called "deep-pocket" donors, primarily located in the Arab Sunni states in the Gulf, and protecting charitable organizations from exploitation and diversion of funds to support terrorist causes.

Considerable efforts were made to establish and gain adoption of international best practices designed to make the international financial system a hostile environment for terrorist support and other forms of illicit finance. Part of this effort involved raising awareness of the risks of terrorist financing and facilitation; bringing governments in high-risk jurisdictions around to

¹⁰⁸"FATF Report: Emerging Terrorist Financing Risks," Financial Action Task Force, October 2015. Emerging Terrorist Financing Risks, 2015, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/emerging-terrorist-financing-risks.html>.

¹⁰⁹Alexander, Harriet and Beach, Alastair, "How Isis is funded, trained and operating in Iraq and Syria," The Telegraph, August 23, 2014, <https://www.telegraph.co.uk/news/worldnews/middleeast/iraq/11052919/How-Isis-is-funded-trained-and-operating-in-Iraq-and-Syria.html>

¹¹⁰Simpson, Conner, "Al Qaeda Are Strict About Keeping Track of Their Receipts," The Atlantic, December 29, 2013, <https://www.theatlantic.com/international/archive/2013/12/al-qaeda-are-strict-about-keeping-track-their-receipts/356552/>

¹¹¹"Terrorist Financing Staff Monograph, Appendix A: The Financing of the 9/11 Plot," National Commission on Terrorist Attacks Upon the United States, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKEwiyIKrt9JfdAhXLMd8KHWR4CbsQFjAAegQICChAC&url=https%3A%2F%2Fgovinfo.library.unt.edu%2F911%2Fstaff_statements%2F911_TerrFin_App.pdf&usq=AQvVaw2t8F6uOZO_fNiQFD62ICg7.

implementation of such standards despite concerns of retaliation. Furthermore, by sharing actionable information—either confidentially or through public notification of sanctions actions—governments were incentivized or compelled to disrupt terrorists' means to raise, store, and move funds.

The rise of the Islamic State—and its almost complete reliance on locally-derived funds—has brought greater attention to the need to not just disrupt terrorist access to the financial system, but to find ways to cut these groups off from means of raising funds. Together with the trend towards criminal sources of funds, there is also a greater focus on law enforcement's role in disrupting terrorist financing and even the role of kinetic actions in blocking terrorists' access to revenue.

To counter the threat of terrorist financing, the United States and its allies marshal actionable financial intelligence, regulatory and sanctions authorities, and engagement with public and private stakeholders. A comprehensive approach is necessary, and indeed increasingly implemented. Private sector financial data gleaned by finance ministries and shared with U.S. military and law enforcement agencies helped identify financial targets for military strikes on IS oil infrastructure and cash depots.¹¹² Today, according to Gerald Roberts, the former section chief of the Terrorist Financing Operations Section of the FBI's Counterterrorism Division, banks run financial intelligence units, which in several cases have provided “that missing piece of the puzzle to identify someone here or abroad who is planning or supporting plans to attack our interests.”¹¹³

Although financial sanctions are perhaps the most visible and quantifiable tool, they are only one tool in the larger CFT toolkit. For a variety of reasons, not every terrorist funder that comes across the U.S. government's radar is sanctioned, including diplomatic or intelligence equities, policy considerations, or ongoing law enforcement investigations. Often, it is more useful to share that information with partner governments and allow them to act. Sanctions designations are targeted at key nodes or vulnerabilities in terrorist networks, and although counter-terrorist financing authorities aim to freeze terrorists' funds, governments know that they will never bankrupt terrorism. Instead, sanctions designations are driven by intelligence and aim to disrupt terrorist financial networks and deter wealthy sympathizers who have financial interests they would rather not put at risk.

Disrupting terrorist's financial transactions makes it harder for them to travel, bribe officials, procure materials, provide for their own families, and, ultimately, engage in operations. Denying terrorists—as well as insurgents and proliferators—easy access to financial tools forces them to use more costly, less efficient, and often less reliable means of financing their activities. “We have no illusion that we can entirely prevent the flow of funds to terrorist groups,” then-Treasury

¹¹² Yeganeh Torbati and Brett Wolf, “In Taking Economic War to Islamic State, U.S. Developing New Tools,” Reuters, November 24, 2015, <https://www.reuters.com/article/us-france-shooting-usa-sanctions-insight-idUSKBN0TD0BJ20151124>.
¹¹³ Gerald Roberts, “Money Flow in the Age of ISIS,” *Chemical Weapons in the Middle East*, The Washington Institute for Near East Policy, May 15, 2015, <http://www.washingtoninstitute.org/policy-analysis/view/money-flow-in-the-age-of-isis>.

Undersecretary David Cohen stated in 2010. “Some funds will find a way to flow. But that does not mean the effort is futile—far from it. What we have learned is that by deterring would-be funders and disrupting the financial facilitation networks, we significantly impede terrorists’ ability to operate.”¹¹⁴

For example, in 2006, Philippine police reported that plans by the jihadist militant group Abu Sayyaf was reportedly unable to carry out plans to bomb targets in Manila due to a lack of funds.¹¹⁵ In 2007, following the outing of several of al-Qaeda’s deep-pocket donors and the ways in which the group used charities to move its funds, Mustafa Abu al-Yazid, al-Qaeda’s finance chief, lamented the group’s money problems in a propaganda video, arguing that the primary need for jihad in Afghanistan was financial. “There are hundreds wishing to carry out martyrdom-seeking operations, but they can’t find the funds to equip themselves,” he said. “So funding is the mainstay of jihad.”¹¹⁶

Alongside efforts to disrupt terrorist financing is an equally powerful tool: using financial data to gather intelligence. As the 9/11 Commission’s report concluded, “Expect less from trying to dry up terrorist money and more from following the money for intelligence, as a tool to hunt terrorists, understand their networks, and disrupt their operations.”¹¹⁷ Following the money allows governments to map out the links between known terrorist operatives and supporters and to identify new ones. The ability to follow the money as an intelligence function is not limited to the formal financial sector. As former senior Treasury official Stuart Levey explained in 2008, “To the extent that terrorists have been pushed out of the formal financial system, this also has advantages for us, as their alternative methods of moving money are more cumbersome and costly, subjecting terrorists to a greater likelihood of detection and disruption.”¹¹⁸

Indeed, financial intelligence (FININT) has provided valuable information in several high-profile investigations. In 2003, transactions between a known al-Qaeda suspect and a previously unknown figure in South Asia allowed the U.S. government to track down Riduan Isamuddin, the mastermind of the 2002 Bali bombing, which killed 202 people.¹¹⁹ The UK’s National Terrorist Financial Investigations Unit helped thwart the 2006 airline plot by tracking large money transfers disguised as “earthquake relief” from a British-based Islamic charity to the three suspected bombers.¹²⁰ One particularly effective FININT program—the Terrorist Finance

¹¹⁴ David Cohen, “Tackling Terrorist Financing,” Council on Foreign Relations, <https://www.cfr.org/event/tackling-terrorist-financing-0>.

¹¹⁵ Manny Mogato, “Militants in SE Asia Rely on Donations-experts,” Reuters, July 09, 2008, <https://www.reuters.com/article/idUSMAN23338>.

¹¹⁶ Levitt, Matthew and Michael Jacobson, “The Money Trail,” The Washington Institute for Near East Policy, November 2008, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus89.pdf>

¹¹⁷ “Executive Summary,” 9/11 Commission Report https://govinfo.library.unt.edu/911/report/911Report_Exec.htm

¹¹⁸ Stuart A. Levey, “Role of Financial Intelligence,” Los Angeles Times, March 26, 2008, <http://articles.latimes.com/2008/mar/26/opinion/le-wednesday26.S4>.

¹¹⁹ Eric Lichtblau and James Risen, “Bank Data Is Sifted by U.S. in Secret to Block Terror,” The New York Times, June 23, 2006, <https://www.nytimes.com/2006/06/23/washington/23intel.html?pagewanted=print>.

¹²⁰ Stephen Dametto, “Money trail is the best lead in the fight against terror,” WAtoday, November 9, 2014, <https://www.watoday.com.au/opinion/money-trail-is-the-best-lead-in-the-fight-against-terror-20141109-11j8ec.html>.

Tracking Program (TFTP)—produced more than 18,000 FININT leads that U.S. authorities shared with their European counterparts through February 2016.¹²¹

Some argue that in the age of the Islamic State, the ways terrorists finance their operations simply don't lend themselves to the traditional tools used to fight terrorist financing, suggesting that financial measures are particularly ineffective at preventing the kinds of self-funded attacks that have recently become common.¹²² However, such attacks often cost more than meets the eye, and because even the cheapest attack is not free, when terrorists are frozen out of their bank accounts, they have to resort to riskier tactics. Consider the case of Ismail Issa, an IS operative arrested while traveling from Germany to Syria. The group had sent him with cash to shop for supplies rather than wiring money to an operative already in the country, because it had become too difficult for IS members to transfer money without being picked up by the authorities.¹²³ In many cases, the jihadists have grown so worried that their transactions were being monitored that they were too scared to collect the funds. Even when terrorists do manage to carry out an attack, financial intelligence can play an important role in the subsequent investigation—as was the case, according to the U.S. Treasury, with the 2013 Boston Marathon bombings, the January 2015 shooting at the offices of the magazine *Charlie Hebdo*, and the November 2015 attacks in Paris.¹²⁴

There is no doubt that IS has represented a unique terrorist financing challenge. However, its ability to take territory was a function not of its particular financial prowess prior, but the breakdown of rule of law in parts of Syria and northwestern Iraq. That terrorist organizations are in some ways better resourced than they were pre-9/11 is not a function of the failure of CFT efforts, but a result of the proliferation of weak and ungoverned spaces. Nonetheless, these trends necessitate efforts to understand how terrorist organizations continue to adapt their financial structures and design of increasingly sophisticated measures to counter them.

The Counter-IS coalition, for example, building on the extension of the UN 1267 mandate to cover the Islamic State, developed and implemented a dual prong approach that relied on isolating IS-controlled territory from the global financial system and depriving the Islamic State of access to resources. While the former included supporting Government of Iraq-led measures to take banks and exchange houses in IS-controlled territory offline (including through

¹²¹ "Terrorist Finance Tracking Program Questions & Answers," U.S. Department of the Treasury, https://www.treasury.gov/resource-center/terrorist-illicit-finance/Terrorist-Finance-Tracking/Documents/tftp_brochure_03152016.pdf.

¹²² Peter R. Neumann, "Don't Follow the Money," *Foreign Affairs*, July 24, 2017, <https://www.foreignaffairs.com/articles/2017-06-13/dont-follow-money>.

¹²³ Justin Huggler, "German jihadi trial shows Islamic State's money transfer struggle," *The Telegraph*, November 5, 2014, <https://www.telegraph.co.uk/news/worldnews/europe/germany/11210325/German-jihadi-trial-shows-Islamic-States-money-transfer-struggle.html>.

¹²⁴ "Terrorist Finance Tracking Program Questions & Answers," U.S. Department of the Treasury, https://www.treasury.gov/resource-center/terrorist-illicit-finance/Terrorist-Finance-Tracking/Documents/tftp_brochure_03152016.pdf.

innovative applications of regulatory authorities targeting illicit exchange houses¹²⁵), the former did indeed involve kinetic action to dissuade oil smuggling and bombings of cash depots.

Critics are right to highlight the high cost of anti-money laundering (AML) and CFT regulations on financial institutions, as well as in pointing to the need to better balance sometimes competing but equally important priorities such as the efficient delivery of timely humanitarian aid and concerns that terrorists continue to abuse charity as a way to raise, launder and move funds.¹²⁶ Both have been the subject of intense discussion on ways to ease the CFT burden on banks and charities.¹²⁷ More progress can and should be made on both these fronts, which explains why the agencies like the FBI and Treasury Department have stressed the importance of public-private cooperation in the CFT space.¹²⁸

¹²⁵ Katherine Bauer and Matthew Levitt, "Denying the Islamic State Access to Money-Exchange Houses," The Washington Institute for Near East Policy, February 3, 2016, <http://www.washingtoninstitute.org/policy-analysis/view/denying-the-islamic-state-access-to-money-exchange-houses>

¹²⁶ Katherine Bauer and Matthew Levitt, "Al-Qaeda Financing: Selected Issues," *How Al-Qaeda Survived Drones, Uprisings, and the Islamic State the Nature of the Current Threat*, June 2017, <https://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus153-Zelin.pdf>.

¹²⁷ Robert Werner, "U.S. Efforts against Terrorism Financing: A View from the Private Sector," Chemical Weapons in the Middle East - The Washington Institute for Near East Policy, June 26, 2007, <http://www.washingtoninstitute.org/policy-analysis/view/u.s.-efforts-against-terrorism-financing-a-view-from-the-private-sector>; "Protecting Charitable Organizations," U.S. Department of the Treasury, <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Pages/protecting-index.aspx>.

¹²⁸ Gerald Roberts, "Money Flow in the Age of ISIS," Chemical Weapons in the Middle East - The Washington Institute for Near East Policy, May 15, 2015, <http://www.washingtoninstitute.org/policy-analysis/view/money-flow-in-the-age-of-isis>; David Cohen, "Remarks of Under Secretary for Terrorism and Financial Intelligence David Cohen before the Center for a New American Security on 'Confronting New Threats in Terrorist Financing,'" U.S. Department of the Treasury, March 24, 2014, <https://www.treasury.gov/press-center/press-releases/Pages/j12308.aspx>.

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Colin P. Clarke

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An Overview of Current Trends in Terrorism and Illicit Finance: Lessons from the Islamic State in Iraq and Syria and Other Emerging Threats

Testimony of Colin P. Clarke¹
The RAND Corporation²

Before the Committee on Financial Services
Subcommittee on Terrorism and Illicit Finance
United States House of Representatives

September 7, 2018

At the height of its territorial control in 2015, Islamic State in Iraq and Syria (ISIS) generated over \$6 billion—the equivalent of the gross domestic product of Liechtenstein.³ This raises the question: In a post-9/11 environment in which governments and the private sector are more aware than ever of the importance of countering terrorist financing, how was ISIS able to develop a war chest of this magnitude? While ISIS's territorial control has declined, it still retains financial power; ISIS's surviving leadership is alleged to have smuggled as much as \$400 million out of Iraq and Syria and used it to invest in legitimate businesses—hotels, hospitals, farms, and car dealerships—throughout the region, including in Turkey, where some militants have also reportedly made large purchases of gold.⁴ ISIS's financial holdings and funding model have made it the wealthiest insurgent group in history, and its diversified funding portfolio and ability to raise money through criminal activities provides it with an opportunity to survive and even make a comeback in Iraq and Syria over the next several years.⁵

The fact that ISIS was able to acquire such a vast financial reserve demonstrates that, despite laudable progress over the past decade and a half, the international community is still learning

¹ The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of the RAND Corporation or any of the sponsors of its research.

² The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest.

³ "Islamic State Has Been Stashing Millions of Dollars in Iraq and Abroad," *The Economist*, February 22, 2018.

⁴ Renad Mansour and Hisham al-Hashimi, "ISIS Inc.," *Foreign Policy*, January 16, 2018.

⁵ Phil Williams and Colin P. Clarke, "Iraqi and Syrian Networks," in Kim Thachuk and Rollie Lal, eds., *Terrorist Criminal Enterprises*, Santa Barbara, Calif.: ABC-CLIO, 2018.

how to combat terrorist financing. To that end, we must review exactly what we mean by terrorist financing, explore how terrorist groups generate income, analyze how ISIS might seek to use its funds to regenerate, and, finally, understand current and emerging trends in this area.⁶

In this testimony, I define terrorist financing and place it in its proper historical context. Second, I analyze how terrorists generate income and how their methods have changed over time and identify current trends in the financing of terrorism, including the crime-terror nexus. Third, I describe what I see as the most significant threat to international security—ISIS—and how this group may attempt to finance a renewed campaign of terror. I conclude with an assessment of the current campaign to counter ISIS finances and the implications for U.S. national security.

Defining Terrorist Financing

Terrorist financing is the raising, storing, and movement of funds acquired through licit or illicit methods for the purpose of committing terrorist acts or sustaining the logistical structure of a terrorist organization.⁷ Terrorists and insurgents are always seeking innovative means to evade law enforcement, and security officials must be dogged in their pursuit of countermeasures to deny, destroy, detain, and disrupt these networks. In the contemporary global security environment, these challenges are further complicated by the cross-border movement of people, goods, and money. Considering the already complex landscape of weak states and poorly governed territories, those tasked with “following the money” have an immensely difficult task.⁸

Even though, by definition, violent nonstate actors exist largely outside of the formal economy, their illicit activities are connected to it in a variety of ways. Terrorist and insurgent organizations are relentless in their use of the tools of globalization, comingling their money with the trillions of dollars of capital transfers that occur each day.⁹ These groups have learned how to combine their resources and profits with legitimate funds, compounding the challenge of identifying where criminal funds end and legitimately earned funds begin.¹⁰

Financing is used to augment militant groups’ ability to execute attacks and fund organizational components aimed to increase group cohesion.¹¹ Terrorist organizations must generate significant levels of income just to survive, much less sustain operational capabilities and funding day-to-day activities. Unlike states, terrorist organizations lack the ability to legally

⁶ For a comprehensive overview of the evolution of the threat posed by al-Qaeda and ISIS, see Ali Soufan, *Anatomy of Terror: From the Death of Bin Laden to the Rise of the Islamic State*, New York: W. W. Norton, 2017.

⁷ Kevin D. Stringer, “Tackling Threat Finance: A Labor for Hercules or Sisyphus,” *Parameters*, Vol. 41, No. 1, Spring 2011, pp. 101–119.

⁸ Nick Vaughan-Williams, *Border Politics: The Limits of Sovereign State Power*, Edinburgh: Edinburgh University Press, 2012.

⁹ Sidney Weintraub, “Disrupting the Financing of Terrorism,” *Washington Quarterly*, Vol. 25, No. 1, Winter 2002, pp. 53–60.

¹⁰ Louise I. Shelley and John T. Picarelli, “Methods Not Motives: Implications of the Convergence of International Organized Crime and Terrorism,” *Police Practice and Research*, Vol. 3, No. 4, 2002, p. 308.

¹¹ Colin P. Clarke, “The Financing of Armed Groups in Conflict,” International Institute for Strategic Studies Armed Conflict Survey, 2018.

tax citizens, although such groups as the Liberation Tigers of Tamil Eelam in Sri Lanka and the Taliban in Afghanistan taxed and extorted civilians for gain, activities that the Taliban continues today.

In Iraq and Syria, ISIS generated the lion's share of its vast fortune by mimicking the actions of an actual nation-state. It collected taxes and tariffs from the population in the territory it controlled and ran state-owned businesses and trading entities, including the oil trade, while extorting individuals, ethnic groups, private companies, local businesses, and the Iraqi government. While ISIS's actions could be a historical anomaly in the financing of terrorist groups, they could also serve as a model for militants to emulate. Yet before looking to the future of terrorist financing, it is crucial to analyze how terrorists have raised funds in the past and how this phenomenon has evolved over time.

Evolution of Terrorist Financing

Throughout the Cold War, both sides of the conflict funded proxy groups that engaged in civil wars and insurgencies and committed acts of terrorism. In the immediate aftermath of the dissolution of the Soviet Union and the end of the Cold War, great-power geopolitical competition came to a temporary halt—as did the sponsorship of terrorist and insurgent proxy groups throughout the world, from Africa to the Middle East to Latin America. Several high-profile groups no longer benefited from the largesse of state sponsorship, which included not only funding but, in many cases, training and equipment.¹² Around the same time, inexpensive weapons flooded the global arms market, fueling the civil wars and insurgencies that raged throughout the 1990s and enabling terrorists to seek to replace funding from external patrons with money gained from criminal activity, such as armed robbery, extortion, and kidnapping for ransom.¹³ There were changes in the frequency and strength of cooperation among terrorists and criminals, who were forced into a marriage of convenience to survive.¹⁴

In addition, many terrorist groups underwent radical changes to their command and control structures, as vertically aligned, top-down organizations grew more networked and decentralized. This organizational change was accompanied by another shift, as some terrorist groups, including al-Qaeda, sought to move beyond local grievances to transnational agendas that included attacks across the globe. Inevitably, the desire to establish a transnational presence brought these groups into contact with terrorist and criminal enterprises in other parts of the world, and this contact sometimes acted as a force multiplier.¹⁵

¹² Colin P. Clarke, *Terrorism, Inc.: The Financing of Terrorism, Insurgency and Irregular Warfare*, Santa Barbara, Calif.: ABC-CLIO, 2015.

¹³ Stathis N. Kalyvas and Laia Balcells, "International System and Technologies of Rebellion: How the End of the Cold War Shaped Internal Conflict," *American Political Science Review*, Vol. 104, No. 3, 2010, pp. 415–429.

¹⁴ Steve Hutchinson and Pat O'Malley, "A Crime-Terror Nexus? Thinking on Some of the Links Between Terrorism and Criminality," *Studies in Conflict and Terrorism*, Vol. 30, No. 12, 2007, pp. 1095–1107.

¹⁵ Chris Dishman, "The Leaderless Nexus: When Crime and Terror Converge," *Studies in Conflict and Terrorism*, Vol. 28, No. 3, 2005, pp. 237–252.

To insulate their organizations from shocks similar to those like losing an external sponsor, terrorist groups moved to insource the bulk of their financing.¹⁶ Phil Williams, a professor at the University of Pittsburgh and one of the world's leading scholars of transnational organized crime, recognized this shift and subsequently characterized it as "do-it-yourself organized crime."¹⁷ Other scholars, including Tamara Makarenko, have referred to this phenomenon as "the crime-terror nexus."¹⁸

In its quest to fund its organization, ISIS has embraced the notion of the crime-terror nexus, going to great lengths to recruit members from the criminal underworld and even peppering their propaganda with slogans along the lines of one used by a British jihadist group, Rayat al-Tawheed—"Sometimes people with the worst paths create the best futures."¹⁹ Terrorism expert Magnus Ranstorp has dubbed this grassroots phenomenon "micro-financing the Caliphate," in which jihadists engage in various types of fraud, petty theft, and other low-level criminal activities.²⁰ Sometimes these jihadists use their criminal skills to make them more effective attackers.²¹ This hybridization, sometimes called "gangster jihad" refers specifically to individuals who drift from the world of crime towards jihadism, perhaps as a way to redeem a lifestyle characterized by sin and illegal acts.²²

ISIS: The Wealthiest Terrorist Group in History

ISIS is different from previous terrorist groups because the territory it controlled provided extremely lucrative resources, such as oil, and a renewable funding source in the form of a taxable population. As former Assistant Secretary for Terrorist Financing at the Department of the Treasury Daniel Glaser has noted, ISIS generated its wealth from three primary sources: oil and gas, which generated about \$500 million in 2015, primarily through internal sales; taxation

¹⁶ Chris Dishman, "Terrorism, Crime and Transformation," *Studies in Conflict and Terrorism*, Vol. 24, No. 1, 2001, pp. 43–58.

¹⁷ Phil Williams, "Terrorist Financing and Organized Crime: Nexus, Appropriation or Transformation?" in Thomas Biersteker and Susan Eckert, eds., *Countering the Financing of Terrorism*, London: Routledge, 2008, pp. 126–149.

¹⁸ Tamara Makarenko, "The Crime-Terror Continuum: Tracing the Interplay between Transnational Organized Crime and Terrorism," *Global Crime*, Vol. 6, No. 1, 2004, pp. 129–145.

¹⁹ Rajan Basra and Peter R. Neumann, "Criminal Pasts, Terrorist Futures: European Jihadists and the New Crime-Terror Nexus," *Perspectives on Terrorism*, Vol. 10, No. 6, 2016.

²⁰ Magnus Ranstorp, "Microfinancing the Caliphate: How the Islamic State is Unlocking the Assets of European Recruits," *CTC Sentinel*, May 25, 2016; Elisabeth Braw, "Foreign Fighters Financing," *Foreign Affairs*, October 25, 2015; and Joby Warrick and Greg Miller, "New ISIS Recruits Have Deep Criminal Roots," *Washington Post*, March 23, 2016.

²¹ Rajan Basra and Peter R. Neumann, "Crime as Jihad: Developments in the Crime-Terror Nexus in Europe," *CTC Sentinel*, Vol. 10, No. 9, October 2017. As Basra and Neumann point out, these skills include the ability to access weapons, forged documents, safe houses, vehicles, and other logistical necessities of a terrorist plot. The authors add familiarity with violence as an enabling "psychological skill."

²² Kacper Rekawek, Stanislav Matejka, Martina Babikova, Tomas Nagy and Jakub Rafay, *From Criminals to Terrorists and Back?* Bratislava: GLOBSEC, December 2017, p. 7.

and extortion, which garnered about approximately \$360 million in 2015; and the 2014 looting of Mosul, during which ISIS stole about \$500 million from bank vaults.²³

To put ISIS financing in perspective, it is useful to consider not only ISIS's similarities to other group but its differences as well. Indeed, there are far more differences than similarities, as ISIS is unique in the scale and scope of its financing activities. Like many other terrorist groups in the contemporary era, ISIS relies on a range of criminal activities, including but not limited to extortion, kidnapping for ransom, robbery and theft, and antiquities smuggling. ISIS may also have been involved with narcotics trafficking.²⁴ There is little evidence to suggest that foreign donations from nation-states have been a significant funding source for ISIS, although wealthy individuals from the Gulf have been accused of financing terrorists in Syria.²⁵

In addition to funding its organization from the bottom up, through petty criminality, ISIS also relied on a top-down funding structure from a range of sources associated with its control of territory. As mentioned in the introduction, ISIS is unique in recent history as one of the few terrorist groups to generate most of its funding from the territory it held—revenue amassed from taxation and extortion, the sale of oil and various oil-related products, looting, confiscation of property and cash, and fines levied against the population by the religious police for a litany of offenses.²⁶ ISIS's reputation as incorruptable, a defining characteristic inherited from its predecessors, al-Qaeda in Iraq (AQI) and Islamic State of Iraq (ISI), helped boost popular support.²⁷

Most concerning, however, is that ISIS continues to make money from oil to this very day, despite the drastic reduction in its territorial holdings. In late June, four members of ISIS's Oil and Gas Network were killed during Coalition operations in the central Euphrates River Valley in Syria.²⁸ According to a United Nations Security Council report from just a few weeks ago,

²³ Daniel L. Glaser, "The Evolution of Terrorism Financing: Disrupting the Islamic State," in Matthew Levitt, ed., *Neither Remaining Nor Expanding: The Decline of the Islamic State*, Washington Institute for Near East Policy, Counterterrorism Lectures 2016–2017, August 2018, pp. 43–47; Daniel L. Glaser, testimony before the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade and House Committee on Armed Services Subcommittee on Emerging Threats and Capabilities, June 9, 2016; and Center for the Analysis of Terrorism, *ISIS Financing 2015*, Paris, May 2016.

²⁴ Colin P. Clarke, "Drugs & Thugs: Funding Terrorism Through Narcotics Trafficking," *Journal of Strategic Security*, Vol. 9, No. 3, Fall 2016; for more on how involvement in narcotics trafficking impacts terrorist groups, see Svante Cornell, "Narcotics and Armed Conflict: Interaction and Implications," *Studies in Conflict and Terrorism*, Vol. 30, No. 3, 2007.

²⁵ Scott Bronstein and Drew Griffin, "Self-Funded and Deep-Rooted: How ISIS Makes its Millions," CNN, October 7, 2014.

²⁶ Stefan Heibner, Peter R. Neumann, John Holland-McCowan, and Rajan Basra, "Caliphate in Decline: An Estimate of Islamic State's Financial Fortunes," London: The International Centre for the Study of Radicalisation and Political Violence, 2017; see also Rukmini Callimachi, "The Case of the Purloined Poultry: How ISIS Prosecuted Petty Crime," *New York Times*, July 1, 2018.

²⁷ Patrick B. Johnston, Jacob N. Shapiro, Howard J. Shatz, Benjamin Bahney, Danielle F. Jung, Patrick Ryan, and Jonathan Wallace. *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005–2010*, Santa Monica, Calif.: RAND Corporation, RR-1192-DARPA, 2016.

²⁸ U.S. Central Command, "Coalition Kills Daesh Criminal Leader, Followers," Combined Joint Task Force – Operation Inherent Resolve Public Affairs Office, June 19, 2018.

ISIS has regained control of oil fields in northeastern Syria and continues to extract oil, both for its own use, but also for sale to locals.²⁹ So while significant progress has been made in combating ISIS's ability to raise money through oil, this revenue source has yet to be completely eradicated and likely never will be. Even when ISIS's predecessors did not control large swaths of territory in Iraq between 2006 and 2009, they were similarly able to raise substantial sums of money from oil, including by extorting local and regional distribution networks.

Countering the Return of the Caliphate

Despite major victories in countering terrorist financing since 9/11, the struggle against ISIS has proven that, even with enhanced tools, continued progress in this area will remain fraught with serious challenges. Since fall 2015, forces from Combined Joint Task Force – Operation Inherent Resolve have regularly conducted targeted, intelligence-driven strikes on the group's oil infrastructure and bulk-cash storage sites in Iraq and Syria.³⁰ To mitigate the prospects of an ISIS revival, these operations must continue well into the foreseeable future. There are already indications that, even with ISIS's substantial loss of territory, smaller cells of ISIS fighters are regrouping and engaging in fundraising and recruitment.³¹

As ISIS's stranglehold on territory is further reduced, it might attempt to compensate for losses in certain revenue streams by increasing revenue generation in other areas.³² Accordingly, every potential facet of ISIS revenue should be nominated for targeting or sanctioning, with the most difficult areas to counter—taxation and extortion of the local population—a longer-term objective more closely tied to postconflict reconstruction. This is especially important given ISIS's (and before it, AQI and ISI's) penchant for extorting construction companies. Reconstruction aid to newly liberated cities, while well intentioned, would provide an attractive target and potentially facilitate ISIS's ability to make significant sums of money even without holding large swaths of territory.

At present, there are no law enforcement or security service entities capable of preventing ISIS from making large sums of money from reconstruction contract skimming. The policing assets that do exist are underfunded, and their resources are already strained. Based on observation of other conflict zones, nonstate armed groups present on the ground are more likely to seek profit in their own right than risk fighting ISIS to enforce laws on the behalf of a repressive regime. A related issue is that ISIS members meticulously collected personal information, including asset and income information and the addresses of extended family

²⁹ United Nations Security Council, "Twenty-Second Report of the Analytical Support and Sanctions Monitoring Team Submitted Pursuant to Resolution 2368 (2017) Concerning ISIL (Da'esh), Al-Qaida and Associated Individuals and Entities," New York, July 27, 2018, p. 8.

³⁰ Patrick B. Johnston and Colin P. Clarke, "Can the Islamic State Survive Financially?" *Lawfare*, May 14, 2017.

³¹ Seth G. Jones, "America's Counterterrorism Gamble," *CSIS Briefs*, July 26, 2018.

³² Colin P. Clarke, "How ISIS is Transforming," *Foreign Affairs*, September 25, 2017; for more on ISIS's resiliency, see Sune Engel Rasmussen and Nancy A. Youssef, "ISIS Remnants Fight On, Despite U.S. Campaign," *Wall Street Journal*, July 9, 2018; and Hassan Hassan, "Insurgents Again: The Islamic State's Calculated Reversion to Attrition in the Syria-Iraq Border Region and Beyond," *CTC Sentinel*, Vol. 10, No. 11, December 2017.

members, from the population within the territory it controlled. This information provides ISIS with more leverage in intimidating and extorting civilians in the future.

As the caliphate disappears, much of the counter-ISIS mission in Iraq should transition from military force to law enforcement, especially when elite Iraqi security forces can hamper ISIS's ongoing efforts to tax local populations. Intelligence will be essential for these forces to combat ISIS's renewed efforts to earn revenue through taxation and extortion. This means investing more resources in training Iraqi and other law enforcement entities, an effort that must be more comprehensive than simply supplying equipment. In Syria, the situation is far more difficult, since Bashar al-Assad remains in power and there is no semblance of state security services capable of policing large swaths of eastern Syria. There are, of course, nonstate armed groups operating throughout the country, including highly capable groups like the People's Protection Units of the Democratic Union Party, although it is not certain whether these groups would enforce the law, turn a blind eye to criminal activities not directly concerning their objectives, or collude with other terrorist groups.

As ISIS continues to evolve, its sources of revenue could change, with the group working to secure external funding from sympathetic donors throughout the Arab and Islamic world or from nation-states in the Middle East that view ISIS as a useful proxy in the region's ongoing internecine conflict.³³ I see this change as unlikely, as throughout its history ISIS has eschewed a reliance on outsiders, but it is still worth monitoring for signs of such a change. Given the current geopolitical dynamics in the Middle East, it is not entirely unreasonable to imagine Turkey or one of the Gulf states becoming a passive sponsor of terrorism.³⁴

Traditional counterterrorism financing tools must be used to continue to keep ISIS isolated from external patrons and state sponsors of terrorism. Many terrorist groups attempt to avoid the formal financial system, but even if they rely on *hawalas* or other informal value transfer systems, their transactions could potentially intersect with various touch points, including correspondent banks in the region. Therefore, bank regulators and financial intelligence units of partner nations must be intimately involved in monitoring and identifying suspicious transactions. In short, the coalition must continue to track financial flows into ISIS-held territory to monitor whether changes are occurring and closely monitor financial flows from countries where wealthy individuals have historically funded jihadist causes, including, but not limited to, countries throughout the Middle East and Persian Gulf.

³³ Colin P. Clarke, Kimberly Jackson, Patrick B. Johnston, Eric Robinson, and Howard J. Shatz, *Financial Futures of the Islamic State of Iraq and the Levant: Findings from a RAND Corporation Workshop*, Santa Monica, Calif.: RAND Corporation, CF-361, 2017.

³⁴ Passive support includes a state or regime knowingly allowing actors within its territory to assist or aid terrorist groups; a state or regime lacking the capacity to prevent this type of assistance or aid; or support provided by "political parties, wealthy merchants, or other actors in society" that do not have a formal affiliation with the government (Daniel Byman, "Passive Sponsors of Terrorism," *Survival*, Vol. 47, No. 4, 2005, p. 118). See also, Colin P. Clarke and Ahmet S. Yayla, "Erdogan's Fatal Blind Spot," *Foreign Policy*, February 15, 2018; and, Ahmet S. Yayla and Colin P. Clarke, "Turkey's Double ISIS Standard," *Foreign Policy*, April 12, 2018.

CONGRESSIONAL TESTIMONY: FOUNDATION FOR DEFENSE OF DEMOCRACIES

House Financial Services Committee
Subcommittee on Terrorism and Illicit Finance

Survey of Terrorist Groups and Their Means of Financing

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Chairman Pearce, Vice Chairman Pittenger, and Ranking Member Perlmutter, on behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, thank you for the opportunity to testify today about a crucial technology that provides virtually unlimited opportunities but also certain threats.

Cryptocurrencies may become the way we transact in the future. But they are also becoming part of the illicit financing toolkit available to terrorists.¹ FDD's Center on Sanctions and Illicit Finance (CSIF) has now documented cryptocurrency fundraising campaigns run by social media entities associated with the Islamic State and al-Qaeda. Although public evidence indicates that terrorist groups have had only limited success so far with cryptocurrency fundraising efforts, the rising profile of digital currency has been accompanied by jihadist networks² experimenting with them more frequently. By preparing now for terrorists' increasing usage of cryptocurrencies, the U.S. can limit the ability to turn digital currency markets into a sanctuary for illicit finance. I will conclude my testimony today with specific recommendations for how the federal government and the private sector can address this challenge.

Terrorists Diversifying Their Portfolios

Terrorist groups regularly adapt their methods to their available resources, skill levels, and the opportunities presented in their target areas of operations. This is as true for financing as it is for plotting attacks. Terrorist organizations have a long history of exploiting banks and other traditional financial institutions, as well as semi-formal means of transferring funds, such as the *hawala* exchange system. But emerging financial technologies offer new channels to raise and move funds. Law enforcement officials and regulators have flagged cryptocurrencies for enabling illicit activity because of their pseudonymity and suitability for cyber crime and darknet marketplace transactions.³

The good news is that most terrorists, particularly those operating on jihadist battlefields, inhabit environments that are not currently conducive to cryptocurrency use. They usually need to purchase goods with cash (which is the most anonymous funding method), often in areas with unreliable technology infrastructure.⁴ In addition, cryptocurrencies are based on distributed ledger (blockchain) technology, where users' pseudonymous transactions are recorded for public viewing.⁵ This leaves a trail that unsophisticated users may find difficult to obfuscate. However, as digital currency usage grows, such barriers may fall away.

¹ This testimony mostly uses "cryptocurrencies" to refer to digital assets like Bitcoin that are based on a decentralized ledger blockchain system, but it is interchangeable with the terms "virtual currencies" and "digital currencies."

² This testimony focuses on terrorist organizations comprised of Salafi jihadist groups and networks.

³ Rachel Rose O'Leary, "Europol Warns Zcash, Monero and Ether Playing Growing Role in Cybercrime," *CoinDesk*, October 3, 2017. (<https://www.coindesk.com/europol-warns-zcash-monero-and-ether-playing-growing-role-in-cybercrime/>)

⁴ Zachary K. Goldman, Ellie Maruyama, Elizabeth Rosenberg, Edoardo Saravalle, and Julia Solomon-Strauss, "Terrorist Use of Virtual Currencies," *Center for a New American Security*, May 3, 2017. (<https://www.cnas.org/publications/reports/terrorist-use-of-virtual-currencies>)

⁵ Generally speaking, each of the most popular cryptocurrencies have their own blockchain. For example, you can only view Bitcoin transactions on the Bitcoin blockchain and Ethereum transactions on the Ethereum blockchain.

For the moment, terrorist groups may lack the necessary skills to employ digital currencies more frequently and effectively. User friendliness is a challenge for this technology, whereas everyone knows how to use cash. Managing large amounts of cryptocurrency requires being extremely savvy in cyber security. For instance, to manage a cryptocurrency wallet, users must keep secure their digital private keys, which differ from regular passwords because they can never be replaced if forgotten.⁶ If hackers acquire your private key and steal your digital currency, there is little one can do to retrieve the funds. Cryptocurrency prices are also volatile, and the broader public buys tokens more for speculation than purchasing real-world goods and services. Thus, operating financially with digital currencies remains a fringe activity both among the general public and within the population of global jihadists.

However, the minimal traction that cryptocurrencies have among jihadists should not be viewed as a steady-state condition. In recent years, I have observed multiple instances of jihadist groups trying to raise funds through cryptocurrencies. Although these networks have not raised much digital cash, I have watched them adapt and grow more sophisticated in their attempts to leverage financial technology. For example, some groups are moving beyond Bitcoin, the most popular cryptocurrency, to alternatives such as Monero that provide greater anonymity. There are only a few publicly verifiable cases of terrorists pursuing cryptocurrency financing, but these instances show that elements within jihadist networks are keenly aware of the technology's potential for secretive peer-to-peer and cross-border payments.

In 2014, Virginian teenager Ali Shukri Amin published a blog article explaining how supporters of the Islamic State could help fund the group by sending bitcoins through anonymous software wallets.⁷ Amin was clearly an early technology adopter. He was an honor student who posted online advice about cyber security and encryption⁸ and was accepted into a top college engineering program before his arrest.⁹ He had thousands of Twitter followers, including jihadists in Iraq and Syria.¹⁰ It is unclear how much Amin's Bitcoin tutorial directly impacted donations to the Islamic State, but it is one of the earliest signs of jihadists exploring how to exploit cryptocurrencies' pseudonymity.

Jahezona: First Terrorist Funding Campaign Publicly Visible on the Blockchain

In 2016, media reports surfaced that a consortium of jihadists in the Gaza Strip called the Mujahideen Shura Council (MSC) in the Environs of Jerusalem¹¹ began soliciting bitcoins for its

⁶ Christine Masters, "Cryptocurrencies: Not User-Friendly Enough?" *Cryptovest*, August 23, 2017. (<https://cryptovest.com/features/cryptocurrencies-not-user-friendly-enough/>)

⁷ U.S. Department of Justice, Press Release, "Virginia Teen Pleads Guilty to Providing Material Support to ISIL," June 11, 2015. (<https://www.justice.gov/opa/pr/virginia-teen-pleads-guilty-providing-material-support-isil>)

⁸ Yasmeen Abutaleb and Kristina Cooke, "A teen's turn to radicalism and the U.S. safety net that failed to stop it," *Reuters*, June 6, 2016. (<https://www.reuters.com/investigates/special-report/usa-extremists-teen/>)

⁹ Warren Richey, "One Virginia teen's journey from ISIS rock star to incarceration," *The Christian Science Monitor*, September 29, 2015. (<https://www.csmonitor.com/USA/Justice/2015/0929/One-Virginia-teen-s-journey-from-ISIS-rock-star-to-incarceration>)

¹⁰ Warren Richey, "One Virginia teen's journey from ISIS rock star to incarceration," *The Christian Science Monitor*, September 29, 2015. (<https://www.csmonitor.com/USA/Justice/2015/0929/One-Virginia-teen-s-journey-from-ISIS-rock-star-to-incarceration>)

¹¹ David Barnett, "Ibn Taymiyyah Media Center returns to Facebook," *FDD's Long War Journal*, April 28, 2013. (https://www.longwarjournal.org/archives/2013/04/ibn_taymiyyah_media_center_ret.php)

weapons fundraising campaign known as *Jahezona*, (Arabic for “Equip Us”).¹² The U.S. State Department designated the MSC as a foreign terrorist organization in 2014.¹³ In 2016, the U.S. Treasury Department designated one of MSC’s leaders for facilitating funding on behalf of the Islamic State.¹⁴

The MSC’s media outlet posted infographics for the *Jahezona* campaign on Twitter and Telegram, listing the prices for rockets, rifles, grenades, and other gear for militants.¹⁵ One effort sought to raise \$2,500 per fighter. Some of the Twitter infographics gave an option to pay in Bitcoin, providing a QR code linked to the campaign’s Bitcoin address.¹⁶

Because the QR code was visible on the Twitter posts, we were able to pull up the address and monitor its transactions on the Bitcoin blockchain. We discovered that after a few weeks of soliciting on social media, the address received only two deposits, totaling a little over \$500 in Bitcoin. The *Jahezona* cryptocurrency crowdfunding campaign fell far short of its aim of raising \$2,500 per fighter. Still, the *Jahezona* case is significant because it was the first time a Bitcoin funding campaign was definitively associated with a terrorist group, with a Bitcoin address publicly verified and observable during the campaign.¹⁷

By analyzing the *Jahezona* transactions on the Bitcoin blockchain,¹⁸ CSIF was able to identify the cryptocurrency exchange where the deposits originated: a European exchange website named BTC-e known for facilitating money laundering. A joint U.S. law enforcement operation shut down BTC-e a year later for multiple illicit financing crimes.¹⁹ Typically, media attention on terrorist funding campaigns would cause banks to close the associated accounts and scare off donors. But unlike money service businesses and bank accounts, cryptocurrency addresses operate by open-source software and cannot be shut down by a third party. Cryptocurrency wallets are managed by whoever controls the private digital key passcode. Even if law enforcement is aware

¹² “Fundraising Campaign to Arm Jihadis in Gaza Solicits Donations Via Bitcoin,” *MEMRI Cyber and Jihad Lab*, July 8, 2016. (<http://cjlaboratory.org/lab-projects/tracking-jihadi-terrorist-use-of-social-media/fundraising-campaign-to-arm-jihadis-in-gaza-solicits-donations-via-bitcoin/>)

¹³ U.S. Department of State, Press Release, “Terrorist Designation of the Mujahidin Shura Council in the Environs of Jerusalem (MSC),” August 19, 2014. (<https://www.state.gov/j/ct/rls/other/des/266549.htm>)

¹⁴ U.S. Department of the Treasury, Press Release, “Treasury Sanctions Key ISIL Leaders and Facilitators Including a Senior Oil Official,” February 11, 2016. (<https://www.treasury.gov/press-center/press-releases/Pages/jl0351.aspx>)

¹⁵ “Salafi-Jihadis Conduct Online ‘Equip Us’ Campaign to Raise Funds for Jihad in Gaza,” *MEMRI Cyber and Jihad Lab*, December 16, 2015. (<http://cjlaboratory.org/lab-projects/monitoring-jihadi-and-hacktivist-activity/salafi-jihadis-conduct-online-equip-us-campaign-to-raise-funds-for-jihad-in-gaza/>)

¹⁶ Yaya Fanusie, “The New Frontier in Terror Fundraising: Bitcoin,” *The Cipher Brief*, August 24, 2016. (https://www.thecipherbrief.com/column_article/the-new-frontier-in-terror-fundraising-bitcoin)

¹⁷ Prior to the *Jahezona* campaign, there were media reports about the Islamic State using Bitcoin, but these claims could not be independently corroborated. It is quite common for scammers to create fake jihadist campaigns as moneymaking schemes. For our analysis, we considered a terrorist cryptocurrency campaign to be real if an established jihadist media channel promoted it.

¹⁸ Yaya Fanusie, “The New Frontier in Terror Fundraising: Bitcoin,” *The Cipher Brief*, August 24, 2016. (https://www.thecipherbrief.com/column_article/the-new-frontier-in-terror-fundraising-bitcoin)

¹⁹ U.S. Department of Justice, Press Release, “Russian National And Bitcoin Exchange Charged In 21-Count Indictment For Operating Alleged International Money Laundering Scheme And Allegedly Laundering Funds From Hack Of Mt. Gox,” July 26, 2017. (<https://www.justice.gov/usao-ndca/pr/russian-national-and-bitcoin-exchange-charged-21-count-indictment-operating-alleged>)

of an illicit address, authorities cannot freeze the account and cannot move funds without the private key.

Although the Mujahideen Shura Council has not recently published the *Jahezona* address on social media channels, it continues to receive deposits every month or so, usually in the low hundreds of dollars. It is unclear if the group still controls this address, but as of early September 2018, it contained over \$1,000 in Bitcoin.

Jihadist Networks Crowdfunding Cryptocurrencies in Syria

The price of Bitcoin began to skyrocket in late 2017, with the price of one bitcoin hitting \$10,000 for the first time last November.²⁰ Rising prices generated media attention, which in turn fed higher prices and greater hype.²¹ This appeared to have the attention of jihadist networks.

Late last year, CSIF was notified by cryptocurrency analytics firm Elliptic (with whom we were collaborating on a research project on Bitcoin laundering) that some jihadist social media channels recently posted requests for Bitcoin funding. Our team looked into these postings²² and initially saw little activity in the addresses, especially after social media platforms deleted their posts and accounts. However, one campaign associated with al-Qaeda²³ stood out because of its frequent posting of slick photo graphics and videos on Telegram. Calling itself *al-Sadaqa* (Arabic for “the Charitable Giving”), the group claimed to be raising funds for fighters in Syria. It transmitted its messages in English. It even posted quotes from now-deceased American al-Qaeda propagandist Anwar al-Awlaki.

CSIF monitored *al-Sadaqa*’s social media channels (its initial Telegram channel was deleted, but it resurfaced within days under a new username). We also monitored and analyzed the group’s Bitcoin address, which it highlighted regularly, asking followers to “donate anonymously with Bitcoin.” In its initial campaigning, *al-Sadaqa* sought \$750 for camp reinforcements. Within weeks, we noticed the address received about \$685 worth of Bitcoin, which it soon sent to another address.

The *al-Sadaqa* group continued requesting funding for a variety of logistical supplies, sometimes publishing videos claiming to show fighters’ encampments in the mountains. But it only received a handful of Bitcoin transactions, none as large as the \$685 early in its campaign.

²⁰ Evelyn Cheng, “Bitcoin surpasses \$10,000 for the first time,” *CNBC*, November 29, 2017.

(<https://www.cnbc.com/2017/11/28/bitcoin-surpasses-10000-for-the-first-time.html>)

²¹ Nathaniel Popper, “Bitcoin’s Price Has Soared. What comes Next?” *The New York Times*, December 7, 2017.

(<https://www.nytimes.com/2017/12/07/technology/bitcoin-price-rise.html>)

²² Michael del Castillo, “Think Tank Links rising Bitcoin Price to Terrorist Use,” *CoinDesk*, December 21, 2017.

(<https://www.coindesk.com/u-s-think-tank-finds-rising-bitcoin-price-linked-terrorist-interest/>)

²³ “Online Campaign in English Raising Funds for the Jihad in Syria in Bitcoin,” *MEMRI Cyber and Jihad Lab*, November 13, 2017. (<http://cjlalab.memri.org/latest-reports/online-campaign-in-english-raising-funds-for-the-jihad-in-syria-in-bitcoin/>)

Jihadists Adjusting Their Cryptocurrency Crowdsourcing Methods

Although the *al-Sadaqah* case may have been as unsuccessful as the *Jahezona* campaign a year prior, it demonstrated how jihadists may adjust when their cryptocurrency campaigns are unsuccessful. In monitoring *al-Sadaqah*'s activity, we noticed that as its Bitcoin address lagged in receiving donations, the group introduced new techniques for supporters to give funds. Since Bitcoin blockchain transactions are public, most supporters – especially newcomers to cryptocurrency use – probably were hesitant to donate for fear of being detected by law enforcement or intelligence agencies.

It appears that *al-Sadaqah* tried to address this concern. At one point, the group encouraged followers to purchase Bitcoin vouchers for a gaming website that took payment in euros. Instead of sending Bitcoin directly, supporters could purchase the voucher and share with *al-Sadaqah*, which would use it to access the Bitcoin funds. The group also posted sites where supporters could locate Bitcoin ATMs to buy cryptocurrencies. Clearly, the campaign organizers were trying to make the Bitcoin-buying process easier for novices.

Al-Sadaqah's most significant adaptation was eventually branching out beyond Bitcoin. By early 2018, the group posted on Telegram that it was also accepting other cryptocurrencies like Monero, Verge, and Dash. These other tokens use varying types of anonymization techniques that make their transactions less traceable than Bitcoin.²⁴ However, *al-Sadaqah* kept the Bitcoin address on their infographics. An exception was a rare post of the group's Monero address. However, the Monero blockchain allows no views into its transactions. Even with the address, we could not determine how much it had received.

Also, *al-Sadaqah* did not just stick to cryptocurrency. With donations scarce, it soon announced ways to receive cash and money service transfers. To access those methods, supporters would have to communicate with the *al-Sadaqah* Telegram administrator via encrypted messaging. Thus, with more anonymous cryptocurrencies and other transmission methods in play, it is very difficult to assess *al-Sadaqah*'s true funding level.

Another militant group in Syria appears to be following in *al-Sadaqah*'s cryptocurrency footsteps. In mid-2018, CSIF noticed an organization called Malhama Tactical soliciting donations on Twitter.²⁵ Malhama Tactical is a private military contractor that caters to jihadists in Syria.²⁶ It was founded in 2016 by an Uzbek who served in the Russian military before leaving to join rebels in Syria in 2013.²⁷ The group has trained various al-Qaeda-affiliated fighters. Though it initially

²⁴ Kai Sedgwick, "Everything You Ever Wanted to Know About Privacy Coins," *Bitcoin News*, December 30, 2017. (<https://news.bitcoin.com/everything-ever-wanted-know-privacy-coins/>)

²⁵ Miles, "Revival of Insurgent Training Team Malhama Tactical," *The Firearm Blog*, July 2, 2018. (<https://www.thefirearmblog.com/blog/2018/07/02/revival-of-insurgent-training-team-malhama-tactical/>)

²⁶ Jonathan Rugman, "The firm that serves a jihadist clientele," *Channel 4 News*, April 3, 2017. (<https://www.channel4.com/news/the-firm-that-serves-a-jihadist-clientele>)

²⁷ Rao Komar, Christian Borys, and Eric Woods, "The Blackwater of Jihad," *Foreign Affairs*, February 10, 2017. (<https://foreignpolicy.com/2017/02/10/the-world-first-jihadi-private-military-contractor-syria-russia-malhama-tactical/>)

relied on contracts to train and support militants, the group started asking for donations amidst a financial crunch in 2017.²⁸

The group's founder reportedly was killed in 2017, but it is now led by someone calling himself Abu Salman Belarus whom we discovered is one of *al-Sadaqah's* social media followers. Abu Salman gives updates about Malhama Tactical through his Twitter account, often in Russian. In June 2018, Abu Salman tweeted a Bitcoin address for Malhama Tactical donations, but it was later deleted. We reviewed the address and found it had received only a few transactions and had less than \$100 worth of Bitcoin. We last saw the Twitter account seek Bitcoin donations in early August, but instead of listing the actual address, this time Abu Salman asked supporters to contact him via direct message for details.

Jihadist Media Outlets Tapping Cryptocurrency Technology

It is not just fighters that terrorist networks seek to support with cryptocurrencies. Salafi jihadist media sites are integrating Bitcoin campaigns into their platforms. In late November 2017, the pro-Islamic State Arabic website *Akhbar al-Muslimeen* (Arabic for "News of the Muslims") published a link for Bitcoin donations, according to an Israeli research institute.²⁹ *Akhbar al-Muslimeen* frequently publishes videos of Islamic State attacks and other jihadist propaganda. The donation link was connected to a page at a mainstream Bitcoin payment processor site. The link was soon removed, probably after the payment processor became aware that one of its customers was a terrorist media outlet.

However, the *Akhbar al-Muslimeen* administrators adjusted by keeping hyperlinks on the site reading, "Donate to site, servers are costly" above many articles. These links led readers to a page generating multiple Bitcoin addresses. Supporters could then copy these addresses and donate to them directly, away from the page. This showed some technical sophistication on the part of site administrators who eliminated their dependence on a Bitcoin payment processing site. In addition, generating many different Bitcoin addresses was likely designed to make it harder for outsiders to monitor donations. We identified a few dozen addresses created by the site, but most of them had no donations.

In December 2017, a jihadist website monitoring group reported that a separate Islamic State-affiliated website called *Isdarat* was requesting bitcoins.³⁰ The *Isdarat* website can only be viewed on the dark web via a Tor browser.³¹ The site also uses multiple Telegram channels to disseminate

²⁸ Jonathan Rugman, "The firm that serves a jihadist clientele," *Channel 4 News*, April 3, 2017.

(<https://www.channel4.com/news/the-firm-that-serves-a-jihadist-clientele>)

²⁹ "Drive for Bitcoin donations on an Isis-affiliated website," *The Meir Amir Intelligence and Terrorism Information Center*, December 6, 2017. (https://www.terrorism-info.org.il/app/uploads/2017/12/E_235_17.pdf)

³⁰ New Jersey Office of Homeland Security and Preparedness, "Female HVEs Likely to Play Supportive Role for ISIS," July 10, 2018.

(<https://www.waterisac.org/system/files/articles/Female%2BHVEs%2BSupport%2Bof%2BISIS%2B%287.23.2018%29.pdf>)

³¹ Anthony Cuthbertson, "Hackers replaced ISIS propaganda on the dark web with advertisements for an online pharmacy," *Business Insider*, November 5, 2015. (<http://www.businessinsider.com/hackers-replaced-isis-propaganda-on-the-dark-web-with-advertisements-for-an-online-pharmacy-2015-11>)

Islamic State videos and other propaganda.³² Media sources did not publish the Bitcoin address, so it is unclear how much, if any, Bitcoin *Isdarat* raised.

Detection Does Not Necessarily Stop Cryptocurrency Campaigning

As mentioned above, a challenge with cryptocurrency addresses for counterterrorist financing is that digital wallets cannot be shut down by an outside party without acquiring private keys. Although *al-Sadaqah* was exposed by my published research³³ and in major outlets like the *Wall Street Journal*,³⁴ it continues to seek funds for its Bitcoin address on social media, showing that the group probably controls its private key.

This response differs from the terror funding activity discovered in the early years after the September 11 attacks. Previously, when they worked exclusively through the conventional banking system, terrorist-supporting charities that were detected by law enforcement or exposed in the press often had their funding channels quickly neutralized.³⁵

Mixing Cryptocurrencies with Conventional Illicit Financing Schemes

Cryptocurrencies can be part of a mix of deceptive financial tools to obscure donors' intentions of terrorist funding. Last year, a Long Island, NY woman tried to send money to the Islamic State by acquiring fraudulent loans and credit cards.³⁶ She used the credit cards to purchase \$62,000 worth of cryptocurrencies that she laundered into fiat money and sent as wire transfers to contacts in Pakistan, China, and Turkey. The fact that she sent funds through a banking infrastructure to her contacts instead of directly via cryptocurrencies shows that jihadist groups, while experimenting with digital currency, remain more comfortable with conventional financial tools.

Illicit finance investigators should also keep in mind that the cryptocurrency space is replete with scams. Sometimes, cyber criminals impersonate terrorists as a ploy to gain funding from extremists. In late August 2018, an independent researcher uncovered a site on the darknet called Sadaqa Coins claiming to be a marketplace for crowdfunding jihadist projects.³⁷ The site sought donations in Bitcoin, Ethereum, and Monero and claimed that funds would pay for weapons, sniper gear, vehicles, and computer equipment. However, one darknet technical expert reviewing the site

³² Riyadh Mohammed, "ISIS Has a New Favorite Social media Network," *The Fiscal Times*, November 5, 2015. (<http://www.thefiscaltimes.com/2015/11/03/ISIS-Has-New-Favorite-Social-Media-Network>)

³³ Yaya Fanusie, "Terrorist Networks Eye Bitcoin as Cryptocurrency's Price Rises," *The Cipher Brief*, December 21, 2017. (<https://www.thecipherbrief.com/article/exclusive/international/terrorist-networks-eye-bitcoin-cryptocurrencys-price-rises>)

³⁴ Brett Forrest and Justin Scheck, "Jihadists See a Funding Boon in Bitcoin," *The Wall Street Journal*, February 20, 2018. (<https://www.wsj.com/articles/jihadists-see-a-funding-boon-in-bitcoin-1519131601>)

³⁵ U.S. Department of the Treasury, Press Release, "Fact Sheet: Designations of Somalia and Bosnia-Herzegovina Branches of Al-Haramain Islamic Foundation," March 11, 2002. (<https://fas.org/irp/news/2002/03/dot031102fact.html>)

³⁶ U.S. Department of Justice, Press Release, "Long Island Woman Indicted for Bank Fraud and Money Laundering to Support Terrorists," December 14, 2017. (<https://www.justice.gov/usao-edny/pr/long-island-woman-indicted-bank-fraud-and-money-laundering-support-terrorists>)

³⁷ Benjamin Strick, "Meet The World's First Jihadi Cryptocurrency Crowdsourcing Site On The Dark Web: SadaqaCoins," *Medium*, August 23, 2018. (<https://medium.com/@benjamindbrown/first-jihadi-cryptocurrency-crowdsourcing-platform-on-dark-web-263edf8885b7>)

assessed that it was most likely a scam and unrelated to real jihadist groups.³⁸ As scams increase, it will be crucial for investigators to determine if cryptocurrency campaigns are truly linked to known jihadist networks.

Recommendations

The above cases make a few things clear. One, terrorist organizations are looking to add cryptocurrency donations to their funding streams. Two, their efforts thus far have not been very fruitful, probably because cryptocurrencies' technical complexities, extremists' preference for cash, and the traceability of most blockchain protocols deter wider usage.

This is to be expected. Although cryptocurrencies have grown the past few years as a speculative asset class,³⁹ their daily use for purchasing goods and services is minimal.⁴⁰ Terrorist adoption of cryptocurrencies simply mirrors that of the general public. This also means that if public cryptocurrency adoption increases, terrorist groups will probably begin to transact more in digital tokens.

But cryptocurrencies and blockchain technology are not innately illicit and should not be feared. Like most technological innovations, they can be utilized for good or ill, depending on the user. Our adversaries, both state⁴¹ and non-state actors, are building blockchain-based tools to advance their interests. The U.S. must keep up with this technology and address new risks emerging from an evolving financial ecosystem. Below are some actions that policymakers and the tech industry should take to mitigate risk.

Counter-Threat Financing Units Must Learn Blockchain Analysis. All units in U.S. government agencies that investigate terrorist funding should become proficient in analyzing cryptocurrency transactions. Public blockchain transactions can usually be viewed on "block explorer" websites.⁴² Although cryptocurrency users operate pseudonymously, investigators can review the flows recorded on the blockchain for insight into suspects' behavior and their financial relationships.

While cryptocurrencies are not expected to displace conventional means of terror financing anytime soon, terrorists will likely use them if they grow more accepted for real-world goods and services. Therefore, all agencies with counter-threat financing groups should have dedicated analysts who specialize in blockchain analysis. Today, investigators have at their disposal not only free block explorer websites, but also various blockchain forensics firms they can leverage for

³⁸ Chris Monteiro, "There are still no credible dark web jihadi sites," *Pirate dot London*, August 25, 2018. (<https://pirate.london/there-are-still-no-credible-dark-web-jihadi-sites-b2bcf1fbf22d>)

³⁹ Nathaniel Popper, "Here's Some Cryptocurrency. Now Please Use It," *The New York Times*, July 1, 2018. (<https://www.nytimes.com/2018/07/01/technology/cryptocurrency-ripple.html>)

⁴⁰ Kenny Li, "Today's Big Problem with Cryptocurrency Adoption," *Hackernoon*, July 21, 2018. (<https://hackernoon.com/todays-big-problem-with-cryptocurrency-adoption-7c9ab96a7779>)

⁴¹ Yaya Fanusie, "Blockchain Authoritarianism: The Regime In Iran Goes Crypto," *Forbes*, August 15, 2015. (<https://www.forbes.com/sites/yayafanusie/2015/08/15/blockchain-authoritarianism-the-regime-in-iran-goes-crypto/#605c8f0e3dc6>)

⁴² Ofir Beigel, "A list of 8 Block explorers and what are they exactly?" *99 Bitcoins*, July 3, 2018. (<https://99bitcoins.com/block-explorer-blockchain-browser/>)

analysis. To mitigate any terrorist use of cryptocurrencies, the U.S. and its partners must get smart on the world of the blockchain.

Financial Authorities Should Engage More Cryptocurrency Exchanges. U.S. financial regulators and law enforcement must increase their engagement with cryptocurrency exchanges, which are where most people purchase digital currency. Many exchanges have ramped up their anti-money laundering compliance the past few years,⁴³ but many smaller exchanges trade in a greater variety of alternative tokens, including so-called “privacy coins.”⁴⁴ Many of these newer exchanges also use more experimental software allowing fully decentralized, peer-to-peer trading⁴⁵ that lacks customer identification verification.⁴⁶ These decentralized exchanges currently have very little volume and some experts say they may not become widely used in the cryptocurrency space for quite a few years.⁴⁷ However, if decentralized exchanges flourish as fully anonymous platforms, they will be more attractive to those seeking to use cryptocurrency for illicit purposes. Thus, the cryptocurrency space appears to be evolving into two ecosystems: one growing more AML-compliant and one going more underground, developing less transparency.⁴⁸

At FDD’s Center on Sanctions and Illicit Finance, we have been facilitating conversations between government policymakers and blockchain technology leaders on illicit finance risks and national security threats. Many within the industry want to keep terrorists and other bad actors off their platforms. Financial authorities should work with those firms to protect citizens from terrorism without stifling technological innovation.

Cryptocurrency Enthusiasts Should Flag Illicit Wallets. Cryptocurrency addresses are easily and randomly software-generated, making them too numerous for a single investigative team to identify all suspect transactions. Law-abiding cryptocurrency exchanges are incentivized to prevent illegal transactions on their platforms, but do not have the capacity to identify all illicit addresses on every blockchain. And while blockchain forensics firms offer tools for exchanges to flag illicit activity, these tools are usually proprietary, focusing on just a handful of blockchain systems. Moreover, known illicit addresses operating on different blockchains are not shared freely among all exchanges and law enforcement agencies.

⁴³ Yaya Fanusie and Tom Robinson, “Bitcoin Laundering: An Analysis of Illicit Flows into Digital Currency Services,” *Foundation for Defense of Democracies and Elliptic*, January 12, 2018.

(http://www.defenddemocracy.org/content/uploads/documents/MEMO_Bitcoin_Laundering.pdf)

⁴⁴ Yaya Fanusie, “Good Crypto, Bad Crypto: Blockchain Projects Gaining Legitimacy While Spawning an Underground,” *Forbes*, July 12, 2018. (<https://www.forbes.com/sites/yayafanusie/2018/07/12/good-crypto-bad-crypto-blockchain-projects-gaining-legitimacy-while-spawning-an-underground/#3813ca4b1078>)

⁴⁵ Nathan Sexer, “State of Decentralized Exchanges, 2018,” *Consensus*, January 31, 2018.

(<https://media.consensys.net/state-of-decentralized-exchanges-2018-276dad340c79>)

⁴⁶ Gary Basin, “The State of Decentralized Exchanges,” *Hackernoon*, June 21, 2018. (<https://hackernoon.com/the-state-of-decentralized-exchanges-235064446ab0>)

⁴⁷ Gary Basin, “Decentralized Exchanges-FinCEN, Payment Channels, and Custody, Oh My!” *Hackernoon*, July 4, 2018. (<https://hackernoon.com/decentralized-exchanges-fincen-payment-channels-and-custody-oh-my-1ac3d83bc42a>)

⁴⁸ Yaya Fanusie, “Good Crypto, Bad Crypto: Blockchain Projects Gaining Legitimacy While Spawning an Underground,” *Forbes*, July 12, 2018. (<https://www.forbes.com/sites/yayafanusie/2018/07/12/good-crypto-bad-crypto-blockchain-projects-gaining-legitimacy-while-spawning-an-underground/#2579dbc41078>)

To address this gap, enthusiasts who care about the integrity of the cryptocurrency industry should flag activity associated with terrorists and other illicit actors. There should be one repository, perhaps developed by entrepreneurs in the private sector, where everyday users can flag illicit addresses from various blockchain systems. Of course, such a site should be built with protocols that review and vet submissions for credibility before publishing them. Such a resource would make it easier for investigators to find illegal activity and help everyday cryptocurrency users stay clear of problematic wallets. In fact, such a resource could be built as a blockchain-based platform, where registered users who credibly report illicit activity are rewarded with a cryptocurrency token. This could be applied not only to flag terrorist transactions, but also to hinder coins associated with ransomware and cyber criminals from moving throughout the blockchain.

Conclusion

Cold hard cash is still king, but jihadist groups are building diverse portfolios. Illicit actors adopt new technologies earlier than the broader public. When paper checks, credit cards, and PayPal each emerged, criminals exploited them early on. There are enough case studies of jihadist groups experimenting with cryptocurrencies to suggest that law enforcement and the intelligence community must prepare for terrorists to try to exploit digital tokens as the technology spreads.

On behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, thank you for the opportunity to testify. I look forward to your questions.

Congressional Testimony

**Survey of Terrorist Groups and
Their Means of Financing**

Oren Segal
Director, Center on Extremism
Anti-Defamation League

Hearing before the
House Committee on Financial Services
Subcommittee on Terrorism and Illicit Finance

Washington D.C.
September 7, 2018



*Working to stop the defamation of the
Jewish people and to secure justice and
fair treatment for all since 1913*

Chairman Pearce, Ranking Member Perlmutter, and distinguished Members of the Subcommittee: thank you on behalf of the Anti-Defamation League for the opportunity to testify before you today.

ADL

Since 1913, the mission of the ADL has been to “stop the defamation of the Jewish people and to secure justice and fair treatment for all.” For decades, ADL has fought against bigotry and anti-Semitism by monitoring and exposing extremist groups and movements who spread hate and commit acts of violence. Through our Center on Extremism, widely recognized as a leading authority on extremism, terrorism and hate in the United States, ADL plays a prominent role in exposing extremist movements and activities, while helping communities and government agencies alike to combat them. ADL’s team of experts, analysts and investigators use cutting-edge technology to track and disrupt extremist and terrorist activity, and provide law enforcement officials and the public with extensive resources, including analytic reports on extremist trends. Among those tools: the Hate Symbols Database¹ and our proprietary, interactive and customizable H.E.A.T. Map², which provides details on extremist and anti-Semitic incidents nationwide that can be filtered by region and type

Assisting Law Enforcement

ADL is the country’s largest non-governmental provider of training for law enforcement on hate crimes, extremism and terrorism. We also deliver training geared to build trust between police and the people and communities they serve. Each year, ADL experts deliver customized, in-depth training to more than 15,000 federal, state, and local law enforcement personnel at a wide range of agencies.³

ADL’s dual role—as a preeminent anti-hate organization and as a strong and trusted partner of law enforcement—gives us the credibility to offer trainings and other products that strongly influence the ways in which law enforcement officers address hate and extremism, and interact with the communities they serve. ADL provides law enforcement with information, expertise, and actionable intelligence to prevent, disrupt, and respond to those extremists who cross the line from espousing hateful ideologies to committing or inciting violent, criminal acts, thus protecting the Jewish community and all Americans. ADL’s Advanced Training School, a highly-acclaimed three-day seminar on domestic and international terror threats, has trained more than 1,100 senior law enforcement executives since its inception in 2003.

¹ Anti-Defamation League, *Hate on Display™ Hate Symbols Database* (<https://www.adl.org/education-and-resources/resource-knowledge-base/hate-symbols>)

² Anti-Defamation League, *ADL H.E.A.T. Map: Hate, Extremism, Anti-Semitism, Terrorism* (<https://www.adl.org/heat-map>)

³ Anti-Defamation League, “Who We Are: Law Enforcement Trainings” (<https://www.adl.org/who-we-are/our-organization/signature-programs/law-enforcement-trainings>)

Relationship with the Tech Industry

Over the past decade, ADL has worked closely with various parts of the tech industry with regard to terrorist and extremist exploitation of their platforms, as well as the spread of cyberhate. Our relationships have led to notable successes in mitigating the exploitation of platforms by various extremist and terrorist groups and movements. In addition, working with industry officials, ADL developed the ADL Cyber-Safety Action Guide⁴, a user-friendly online platform where consumers can learn how and where to report bigoted, bullying, or hateful speech to the major internet providers and social media platforms. ADL has also convened a Working Group on Cyberhate to develop recommendations for the most effective responses to manifestations of hate and bigotry online. The Working Group includes representatives of the internet industry, civil society, the legal community and academia. The Working Group input and guidance has been invaluable and is reflected in a set of Best Practices⁵ that provides useful and important guideposts for all those willing to join in the effort to address the challenge of cyberhate.

The Extremist and Terrorist Threat Array

The United States is a large, populous country with over 320 million people who belong to a wide range of political, social, and religious causes, some of them with a history of extremism and violence. At any given moment in time, Americans face the threat of extremist-related crime and violence from not just one but a number of different sources, including white supremacists, anti-government extremists, domestic Islamist extremists and left-wing extremists. Ignoring any of these threats invariably results in consequences for the American people.

Extremist Murders in the United States

One of the ways to understand the extremist threat array facing the United States is to examine extremist-related murders, including those committed in terrorist acts.

Every year, adherents of a variety of extreme movements kill people in the United States.; the ADL's Center on Extremism tracks these murders, with data stretching back to 1970. Over the past ten years (2008-2017), domestic extremists of all kinds have killed at least 387 people in the United States. Of those deaths, approximately 71 percent were at the hands of right-wing extremists such as white supremacists, sovereign citizens and militia adherents.

These statistics, available in our latest murder report, "Murder and Extremism in the United States in 2017,"⁶ illustrate that extremist-related killings comprise only a small fraction of the total number of homicides in the United States each year. Nevertheless, because of their nature, they can often have an outsized impact, affecting entire communities—or even the entire country—in ways many other deaths do not. Perhaps the clearest recent illustration is the 2017

⁴ Anti-Defamation League, *ADL Cyber-Safety Action Guide*, (<https://www.adl.org/adl-cyber-safety-action-guide>)

⁵ Anti-Defamation League, "Best Practices for Responding to Cyberhate" (<https://www.adl.org/best-practices-for-responding-to-cyberhate>)

⁶ Anti-Defamation League, *Murder and Extremism in the United States in 2017: An ADL Center on Extremism Report*, January 17, 2018 (<https://www.adl.org/media/10827/download>)

murder of Heather Heyer, murdered by white supremacist James Alex Fields, Jr. during the Unite the Right rally in Charlottesville, Virginia. Heyer's death garnered international attention and served as a wake-up call to the dangers posed by a re-energized white supremacist movement.

In 2017, extremists killed at least 34 people in the United States, a welcome decline from the much higher totals for 2016 and 2015, but still the fifth deadliest year since 1970.⁷ Unlike 2016, a year dominated by the Pulse nightclub shootings in Orlando, Florida, which was committed by an Islamist extremist, the majority of 2017 extremist murders were committed by right-wing extremists, primarily white supremacists, as has typically been the case most years.

The white supremacist murder tally includes several killings linked to the alt right⁸, the newest segment of the white supremacist movement, which expanded its operations in 2017 from the internet into the physical world—raising the probability that we will see more such violent acts in the future.

An Islamist extremist committed the single deadliest incident in 2017: the New York City vehicular homicide attack, which killed eight people on a downtown bike path. Adherents of several different extremist movements, including white supremacists, anti-government extremists, and black nationalists, have also used vehicles to commit attacks in the United States in the past several years.

It is important to note that these incidents represent merely the most visible extremist violence and crime in the United States: for each person actually killed by an extremist, many more are wounded or injured in attempted murders and assaults. Every year, police uncover and prevent a wide variety of extremist plots and conspiracies with lethal intentions. Moreover, extremists engage in a wide variety of other crimes related to their causes, from threats and harassment to white collar crime.

Right-Wing Terrorism

In some cases, extremist murders are committed as acts of domestic terror. ADL's Center on Extremism defines terrorism as a pre-planned act or attempted act of significant violence by one or more non-state actors in order to further an ideological, social or religious cause, or to harm perceived opponents of such causes. Significant violent acts can include bombings or use of other weapons of mass destruction, assassinations and targeted killings, shooting spree, arsons and fire-bombings, kidnappings and hostage situations and, in some cases, armed robberies. Domestic terrorism consists of acts or attempted acts of terrorism in which the perpetrators are citizens or permanent residents of the country in which the act takes place.⁹

⁷ Anti-Defamation League, "Chapter 3: The Murders," *Murder and Extremism in the United States in 2017: An ADL Center on Extremism Report*, January 17, 2018 (<https://www.adl.org/resources/reports/murder-and-extremism-in-the-united-states-in-2017#the-murders>)

⁸ Anti-Defamation League, "Alt Right: A Primer about the New White Supremacy," (<https://www.adl.org/resources/backgrounders/alt-right-a-primer-about-the-new-white-supremacy>)

⁹ Anti-Defamation League, "Glossary Terms: Domestic Terrorism" (<https://www.adl.org/resources/glossary-terms/domestic-terrorism>)

For more than 150 years, right-wing terrorism has been an unwelcome feature of the American landscape. Today, however, most Americans don't realize its frequency or scope.

In recent years, far more attention has been given to the threat of Islamist terror—which has been linked to such horrific acts as the Orlando and San Bernardino shooting spree. Yet the very real specter of Islamist terror in the United States exists alongside the equally serious threat of terror from right-wing extremist groups and individuals.

Islamist extremists and right-wing extremists have generated shooting sprees, bombings, and a wide variety of plots and conspiracies at roughly similar rates. Since 9/11, ADL has tracked 127 Islamist extremists in the United States involved in 98 terrorist plots or attacks and 161 right-wing extremists involved in 94 plots or attacks.¹⁰ Both ideologies pose threats so significant that to ignore either would be to invite tragedy. Yet right-wing violence typically receives much less media—and governmental—attention than Islamist violence does.

To illustrate the persistent threat of right-wing terrorism in the United States, ADL's Center on Extremism compiled a list of 150 right-wing terrorist acts, attempted acts, plots and conspiracies from the past 25 years (1993-2017) for a report entitled, "A Dark and Constant Rage: 25 Years of Right-Wing Terrorism in the United States."¹¹

These include terrorist incidents from a wide variety of white supremacists, from neo-Nazis to Klansmen to racist skinheads, as well as incidents connected to anti-government extremists such as militia groups, sovereign citizens and tax protesters. The number of acts attributed to each extremist sub-group is nearly identical: 64 terror incidents are related to white supremacists, while 63 are related to anti-government extremists. When most people picture right-wing terrorism, they tend to think of white supremacists, but anti-government extremists such as militia groups and sovereign citizens pose just as much of a threat. The danger posed by violent anti-abortion extremists and other, smaller right-wing groups that resort to violence must also be taken into consideration.

White Supremacists

White supremacist ideology in the United States today is dominated by the belief that whites are doomed to extinction by a rising tide of non-whites who are controlled and manipulated by the Jews—unless white supremacists act to prevent this ostensible "white genocide." This core belief is exemplified by slogans such as the so-called Fourteen Words: "We must secure the existence of our people and a future for white children."¹² White supremacists are often motivated to violence by this racist conviction.

¹⁰ Anti-Defamation League, *A Homegrown Threat: Islamist Extremist Plots in the United States*, May 1, 2018 (<https://www.adl.org/media/11160/download>)

¹¹ Anti-Defamation League, *A Dark and Constant Rage: 25 Years of Right-Wing Terrorism in the United States*, May 22, 2017

(https://www.adl.org/sites/default/files/documents/CR_5154_25YRS%20RightWing%20Terrorism_V5.pdf)

¹² Anti-Defamation League, "14 Words," *Hate on Display™ Hate Symbols Database* (<https://www.adl.org/education/references/hate-symbols/14-words>)

America's white supremacist movement is in the midst of a resurgence with a new generation of energized followers driving its growth and activity.¹³ The growth of the alt right segment of the white supremacist movement since 2015, abetted by the current political climate, has brought tens of thousands of new recruits to the white supremacist movement, most of whom are young and many of whom are relatively well-educated.

Most white supremacists do not belong to organized hate groups, but rather participate in the white supremacist movement as unaffiliated individuals. Thus, the size of the white supremacist movement is considerably greater than just the members of related hate groups.

The white supremacist movement has a number of different components, including 1) neo-Nazis; 2) racist skinheads; 3) "traditional" white supremacists; 4) Christian Identity adherents; 5) white supremacist prison gangs; and 6) the alt right.¹⁴

White supremacists engage in a variety of terrorist plots, acts and conspiracies. However, white supremacists also have a high degree of involvement with traditional forms of criminal activity as well as ideologically-based criminal activity. Most of the murders committed by white supremacists are done for non-ideological reasons. However, even if such murders are ignored, white supremacists still account for the majority of lethal extremist violence in the United States.

Most of the recent growth of the white supremacist movement is attributable to the rise of the alt right since 2015. The newest segment of the white supremacist movement brought many new faces to the movement, people not previously involved in extremist causes, as well as a new subculture derived from online forums such as 4chan and reddit as well as from the misogynistic "manosphere."¹⁵ While the growth of the alt right has energized the movement, it has also had somewhat of a destabilizing effect, as the alt right actually threatens to steal recruits from some of the more veteran segments of the white supremacist movement.

The alt right was the organizing force behind the white supremacist "Unite the Right" rally in Charlottesville, Virginia, on August 11-12, 2017, which attracted some 600 extremists from around the country and ended in deadly violence.¹⁶ These shocking events served as a wake-up call for many Americans, and shone a spotlight on the country's resurgent white supremacist problem.

In 2017-2018, the alt right has continued to move from online activism into the real world, forming real world groups and organizations and engaging in tactics such as targeting college campuses. ADL's Center on Extremism documented an increase by 77 percent of white

¹³ Oren Segal, "Reports of the Alt-Right's Demise Have Been Greatly Exaggerated" *Huffington Post*, June 12, 2018 (<https://www.adl.org/news/op-ed/reports-of-the-alt-rights-demise-have-been-greatly-exaggerated>)

¹⁴ Anti-Defamation League, "Defining Extremism: A Glossary of White Supremacist Terms, Movements and Philosophies" (<https://www.adl.org/education/resources/glossary-terms/defining-extremism-white-supremacy>)

¹⁵ Anti-Defamation League, *When Women are the Enemy: The Intersection of Misogyny and White Supremacy*, July 24, 2018 (<https://www.adl.org/media/11707/download>)

¹⁶ Anti-Defamation League, "Have Hate, Will Travel: The Demographics of Unite the Right" (<https://www.adl.org/blog/have-hate-will-travel-the-demographics-of-unite-the-right>)

supremacist propaganda efforts on college campuses during the 2017-2018 academic year.¹⁷ From September 1, 2017 to May 31, 2018, the Center documented 292 cases of white supremacist propaganda on college campuses—including fliers, stickers, banners, and posters—compared to 165 during the 2016-17 academic year.

As the alt right received increased media scrutiny, it suffered from dissension and disunity, most notably the departure of many alt right cheerleaders who, though possessing a number of extreme views, did not advocate explicit white supremacy (these defectors are often referred to as the “alt lite”).¹⁸ The post-Charlottesville backlash against the alt right hurt many of its leading spokespeople but has not resulted, as some have claimed, in a decline in the movement as a whole.¹⁹

Other white supremacists—neo-Nazis, traditional white supremacists, racist skinheads, white supremacist religious sects, and white supremacist prison gangs—have also continued their activities. Some white supremacists, such as neo-Nazis, seem to have been buoyed by the alt right to some extent, while others—most notably racist skinheads—may experience a loss of potential recruits at the hands of the alt right.

Anti-Government Extremists (The “Patriot” Movement)

Although the term “anti-government extremism” can be used generically to refer to any fringe movement with an antipathy towards the government, or even the idea of government itself, in the United States the term is usually used to describe a specific set of right-wing extremist movements and groups that share a conviction that part or all of the U.S. government has been taken over by a conspiracy and is therefore not legitimate. Collectively, these movements and groups are often referred to as the “Patriot” movement.²⁰

The most important segments of the “Patriot” movement include the militia movement, the sovereign citizen movement and the tax protest movement. Though each sub-movement has its own beliefs and concerns, they share a conviction that part or all of the government has been infiltrated and subverted by a malignant conspiracy and is no longer legitimate.

The overlap between the white supremacist movement and “Patriot” groups has diminished over time; today there are people of color within the “Patriot” movement, particularly within the

¹⁷ Anti-Defamation League, “White Supremacist Propaganda Nearly Doubles on Campus in 2017-18 Academic Year” (<https://www.adl.org/resources/reports/white-supremacist-propaganda-nearly-doubles-on-campus-in-2017-18-academic-year>)

¹⁸ Anti-Defamation League, “From Alt Right to Alt Lite: Naming the Hate,” July 18, 2017 (<https://www.adl.org/resources/backgrounders/from-alt-right-to-alt-lite-naming-the-hate>)

¹⁹ Oren Segal, “The Alt-Right Isn’t Going Away,” *The Forward*, July 5, 2018 (<https://forward.com/opinion/404501/the-alt-right-isnt-going-away/>)

²⁰ Anti-Defamation League, “Defining Extremism: A Glossary of Anti-Government Extremist Terms, Movements and Philosophies” (<https://www.adl.org/education/resources/glossary-terms/defining-extremism-anti-government>)

sovereign citizen movement, which in recent years has been able to recruit thousands of African-Americans to its ranks.²¹

Currently, the two most important anti-government extremist movements are the militia movement and the sovereign citizen movement. The militia movement, which dates back to 1993, is centered on anti-government conspiracy theories about the relationship between the federal government and an ostensible global conspiracy to create a tyrannical one-world government (often referred to as the “New World Order”) that seeks to disarm and enslave Americans. Militia movement adherents claim to be fighting against this global conspiracy and its collaborators within the federal government much like their forefathers fought against the British during the American Revolution.

Also part of the militia movement are the Three Percenters and the Oath Keepers.²²

The term “Three Percenter” derives from the erroneous belief that only three percent of colonists fought against the British during the Revolutionary War—but achieved liberty for everybody. Three Percenters view themselves as modern day versions of those revolutionaries, fighting against a tyrannical U.S. government rather than the British. With anyone able to declare themselves a Three Percenter, the concept allowed many people to join who were not suited, physically or by inclination, to engage in the traditional paramilitary activities of the militia movement.

Oath Keepers are a fairly large and loosely-organized anti-government extremist group started by attorney E. Stewart Rhodes that emerged as part of a resurgence of the militia movement in 2008-09. They particularly seek to spread the anti-government ideology of the militia movement among, and to seek recruits from, former and active duty military personnel, law enforcement officers and first responders. However, such a background is not required for membership.

The sovereign citizen movement dates back to 1970 in its earliest incarnation and is larger than the militia movement.²³ Sovereign citizens believe that a conspiracy dating back to the 1860s infiltrated and subverted the government of the United States, replacing its laws and legal systems with versions designed to allow repression and tyranny. This conspiracy purportedly replaced the original “de jure” government with a new, illegitimate “de facto” government.

Sovereign citizens believe that they can declare their “sovereignty” and return to the pre-conspiracy government, after which the “de facto” government has no authority or jurisdiction over them. Sovereign citizens thus believe they can ignore laws, rules, regulations and taxes; as a result, the movement has a high association with criminal activity, violent and non-violent.

²¹ Anti-Defamation League, “The Lawless Ones: The Resurgence of the Sovereign Citizens Movement” (<https://www.adl.org/sites/default/files/documents/assets/pdf/combating-hate/Lawless-Ones-2012-Edition-WEB-final.pdf>)

²² Anti-Defamation League, *The Oath Keepers: Anti-Government Extremists Recruiting Military and Police*, September 18, 2015 (<https://www.adl.org/resources/profiles/the-oath-keepers>)

²³ Anti-Defamation League, *The Lawless Ones: The Resurgence of the Sovereign Citizen Movement*, 2012 (<https://www.adl.org/sites/default/files/documents/assets/pdf/combating-hate/Lawless-Ones-2012-Edition-WEB-final.pdf>)

Because of a history of violent confrontations between sovereign citizens and law enforcement, including deadly shootouts, the movement represents a significant risk to officer safety.

Though the sovereign citizen movement began in the United States, it spread to Canada in the 1990s and to other English-speaking countries in the 2000s and is even present in small numbers in Europe. Spurred by the recession and foreclosure crisis of 2008-2009 and enabled by the rise of social media, the sovereign citizen movement experienced considerable growth over the past ten years, with corresponding rises in sovereign citizen violence, “paper terrorism” harassment tactics and white collar scams and frauds. It has also grown considerably within the African-American community during the same time frame—ironic for a movement many of whose pioneers were white supremacists.

Islamist Extremism

One of the most striking elements of today’s domestic threat picture is the role that a growing number of American citizens and residents motivated by radical interpretations of Islam have played in criminal plots to attack Americans in the United States and abroad. Over the past ten years, about 24 percent of victims killed by domestic terrorists were at the hands of domestic Islamist extremists.²⁴

We have seen a notable increase in the number of U.S. citizens, lawful permanent residents and others with documentation who have become involved in Islamist extremist-related plots. Of the 127 individuals involved in Islamist extremist-inspired plots since 2002, 66 were born in the United States—approximately 52 percent of the total.²⁵ Twenty-five of those individuals, or roughly 20 percent, were naturalized citizens, and 23 were lawful permanent or temporary residents—approximately 18 percent. Five of the individuals were foreign citizens, and eight were in the United States without documentation. This means that 90 percent of the individuals involved in plots were U.S. citizens, lawful permanent or temporary residents, or in the United States with documentation.

Islamist extremist terrorist acts in the United States since 9/11 have evolved in tandem with major global developments, including technological advancements, wars, civil unrest, and an ever-shifting global political landscape. When analyzing terror plots in the United States, it’s important to understand historical context.

Immediately following the attacks of September 11, 2001, al-Qaeda became a much-cited inspiration for terror plots. Between 2002 and 2008, 33 individuals were arrested for involvement in 16 plots, with at least two individuals on average involved in each plot. This is likely because people were radicalizing through physical networks at the time, such as family, friends, co-religionists and others.

²⁴ Anti-Defamation League, *Murder and Extremism in the United States in 2017: An ADL Center on Extremism Report*, January 17, 2018 (<https://www.adl.org/media/10827/download>)

²⁵ Anti-Defamation League, *A Homegrown Threat: Islamist Extremist Plots in the United States*, May 1, 2018 (<https://www.adl.org/media/11160/download>)

Beginning in 2008, individuals more often plotted attacks on their own rather than as part of cells. By 2010, the number of individuals almost equaled the total number of plots for that year; between 2014 and 2017, 51 people were involved in 47 plots. In both 2016 and 2017, the number of plots matched the number of individuals involved. And the focus on soft targets has increased significantly since 2014.

Self-radicalized lone actors pose a particular challenge to combat, in that they are often harder to trace, and they do not operate under the direction of any designated terror group, which means their motivations tend to be less clear, and their actions less predictable.

For years, U.S. foreign policy strategies prioritized al-Qaeda targets and significantly weakened the group by eliminating much of its core leadership, including Osama bin Laden. Al-Qaeda became increasingly decentralized, which may have contributed to the decrease in domestic plots between 2011 and 2014.

However, as al-Qaeda weakened, Islamic State (IS) rose from its ashes in Iraq, and in 2011, began to spread into Syria at the start of that country's civil war. After taking Mosul in June 2014, IS made international headlines and gained notoriety as both a local insurgency and international terror group.

Unsurprisingly, IS was cited as the inspiration for 20 of the 21 domestic terror attack plots in the U.S. in 2015, including the San Bernardino shooting.

The sharp rise in plots from 2014 to 2015 illustrates IS's profound influence on people living in the United States. Twenty of the 25 individuals involved in 2015 plots were United States citizens. The remaining five were either lawful permanent or temporary residents or naturalized citizens.

Left-Wing and Black Nationalist Violence

While in no way comparable to the nature and magnitude of the threat posed by right-wing and white supremacist groups, far left-wing violence does still occur in the United States, though at far lower levels than during its heyday from 1965-1985. Here we use the term "far left" very broadly, to include anarchists as well as violent black nationalists, even though some of those groups themselves might claim not to be part of the left, as well as single-issue extremists such as animal rights and environmental extremists, typically emerging from the extreme wings of mainstream movements. Such groups and individuals have been responsible for a relatively small number of terrorist incidents over the past ten years, far smaller than those committed by either Islamist extremist or right-wing extremist actors.

Of particular note has been a rise of violence related to black nationalism in the past several years, generally as a response to police shootings perceived as wrongful. Several shootings and one vehicular assault have been directed against police officers by such extremists. In 2016, two

incidents in particular have caused concern: shootings responsible for the deaths of eight police officers in Dallas and Baton Rouge.²⁶

In July 2016, Micah Xavier Johnson, who had ties to black nationalist groups such as the New Black Panther Party, killed five police officers and injured nine others in Dallas, Texas, in an ambush attack aimed at police who were maintaining public order at a Black Lives Matter protest. That same month, Gavin Eugene Long ambushed and shot six police officers, three of them fatally, in Baton Rouge. Long, like Johnson, was an adherent of black nationalism and a military veteran, as well as a member of the anti-government sovereign citizen movement. Both incidents appear to have been motivated by anger in response to police shootings of African American men.

Extremist Funding in the United States

Contrary to common public perception, most extremist movements in the United States are largely self-funded, with individuals and groups funding their own activities (violent or otherwise), though online fundraising does play a role. It's important to note that funding levels for any extremist movement does not necessarily correlate with their ability to promote or even perpetrate violence.

Because Islamist extremists' actions are more broadly identified as terrorist activities, their fundraising streams are generally deemed illegal. That is not the case for right-wing extremists, whose actions are less likely to be considered by law to be terrorist activities.

As outlined below, certain funding modalities—like Bitcoin, for example – are particularly vulnerable to exploitation by extremists. And online payment and money transfer services require government support and increased public vigilance to help them prevent their systems from being exploited by extremists. Financial institutions have a vested interest in protecting their brand and their good name—and to preserve all of these, they need to increase their due diligence and actively cut off bad actors from across the extremist spectrum.

Anti-government extremists

The anti-government movement is very much about self-funding with few revenue streams. Militia groups, for example, are largely self-funded, with people putting their own money into their movement activity, purchasing their own weapons and uniforms, and paying their own way to the events they organize and attend.

In general, the sovereign citizen movement is similarly self-funded. There are, however, some unique elements to sovereign citizen funding. For example, sovereign citizen groups and gurus sell many manuals and guides that teach their ideas and tactics. The prices range from hundreds to thousands of dollars. These are sold online as well as in person—on their own sites, or sometimes on third party sellers, although less common.

²⁶ Anti-Defamation League, *Murder and Extremism in the United States in 2016*, February 16, 2017 (<https://www.adl.org/sites/default/files/documents/MurderAndExtremismInUS2016.pdf>)

Sovereign citizens also commonly hold seminars and training sessions, for which they charge (often substantial) fees for people to come to learn ideas and tactics. The sovereign citizen movement is also well-known for perpetrating a variety of scams and frauds—from mortgage fraud to investment scams to immigration fraud and more. Some of these schemes can take in millions or even tens of millions of dollars, most of which is used for the benefit of the scammers.

White Supremacists

ADL is frequently asked, “Where do white supremacists get their money?”

Implicit in this question is the assumption that white supremacists raise a substantial amount of money, an assumption fueled by rumors and speculation about white supremacist groups being funded by sources such as the Russian government, far right conservative foundations or secretive wealthy backers.

The reality is less sensational but still important. As American political and social movements go, the white supremacist movement is particularly poorly funded. Small in numbers compared to mainstream causes and containing many adherents of little means, the white supremacist movement has an inherently weak base for raising money.

Moreover, ostracized because of its extreme and hateful ideology, not to mention its connections to violence, the white supremacist movement does not have easy access to many common methods of raising and transmitting money. This lack of access to funds and funds transfers limits what white supremacists can do and achieve.

Recent developments, particularly in crowdfunding, provided a small number of white supremacists of high visibility within the movement additional revenue streams—mostly small but sometimes significant. However, mainstream crowdfunding sites are now much more likely to prevent white supremacists from exploiting their platforms, while “alternative” crowdfunding sites established by extremists themselves have mostly failed.

As outlined in ADL’s recent report titled, “Funding Hate: How White Supremacists Raise Their Money,”²⁷ the main sources of white supremacist funding include:

Self-funding:

Most white supremacists fund their own activities in the movement—whatever those activities may be. This is not surprising; most white supremacists do not belong to any organized group and have little to rely upon other than their own resources. If they want to attend a white supremacist event somewhere, they must travel there themselves, or find a ride with others. They often must pay for their own tattoos, clothing, paraphernalia and weaponry. Because many white

²⁷ Anti-Defamation League, *Funding Hate: How White Supremacists Raise their Money*, December 5, 2017 (<https://www.adl.org/media/10761/download>)

supremacists are not economically advantaged, such self-funding does not generate much money as a whole.²⁸

Organizational funding:

Most white supremacist groups, as well as other white supremacist entities such as websites, do solicit voluntary donations, regardless of whether they have membership dues. For example, the Arkansas-based Knights Party, a Klan group, solicits donations of from \$5 to \$500 through an online store. Fundraising campaigns for limited and specific purposes—such as raising money to pay the legal fees of an arrested white supremacist—often have a greater chance of success than broader or more generic entreaties.²⁹

Most of these groups seeking dues and donations can't easily use electronic forms of payment, because companies like PayPal make an effort to prevent white supremacists from using their services. The Knights Party, for example, allows people to "purchase" donations online but they must send checks or money orders by mail. The National Policy Institute, the "think tank" of alt right ideologue Richard Spencer, complains on its site that "each of our online donation processors has been successively torpedoed by Silicon Valley," and asks that people send traditional check or money order.

Criminal Activity:

White supremacists engage not only in ideological crimes such as hate crimes or terrorist plots, but also a wide variety of traditional crimes—including crimes intended to obtain money, such as drug dealing, robberies and thefts. White supremacist prison gangs, many of which can be described as organized crime syndicates, are particularly noteworthy for such activities, but this type of criminal behavior can be found to some degree across much of the white supremacist movement.³⁰

Most such criminal activity, however, is designed primarily to benefit the person or persons engaging in the crime, rather than a white supremacist group or the white supremacist causes as a whole. As such, criminal activity is not a major source of funding for white supremacism as a movement.

Online funding platforms:

The most significant new type of funding for the white supremacist movement has been crowdfunding or crowdsourcing, which can be used by both individuals and groups. Essentially

²⁸ Anti-Defamation League, "Chapter 2: Self-Funding," *Funding Hate: How White Supremacists Raise their Money*, December 5, 2017 (<https://www.adl.org/resources/reports/funding-hate-how-white-supremacists-raise-their-money#self-funding>)

²⁹ Anti-Defamation League, "Chapter 3: Organizational Funding," *Funding Hate: How White Supremacists Raise their Money*, December 5, 2017 (<https://www.adl.org/resources/reports/funding-hate-how-white-supremacists-raise-their-money#organizational-funding>)

³⁰ Anti-Defamation League, "Chapter 4: Criminal Activity," *Funding Hate: How White Supremacists Raise their Money*, December 5, 2017 (<https://www.adl.org/resources/reports/funding-hate-how-white-supremacists-raise-their-money#criminal-activity>)

an extension of social media, crowdfunding consists of using dedicated internet platforms such as GoFundMe, Patreon, FundRazr, Indiegogo and Kickstarter, among others, to solicit and raise money for specific products, projects or general support from among a wide base of people. Today, crowdfunding is used to finance an amazing range of activities, from moviemaking to wrestling camps.³¹

White supremacists quickly discovered for themselves the usefulness of such platforms. One early effort by white supremacists occurred on Indiegogo, where white supremacist Kyle Hunt launched a fund drive in 2014 to produce “Stop White Genocide” banners for planned White Man March events across the country. With 50 backers contributing money, Hunt quickly raised over \$3,500, well over his stated goal of \$2,000. A similar campaign to purchase an aerial “March Against White Genocide” sign (i.e., one pulled by a plane) was also successful. Canadian white supremacist Veronica “Evalion” Bouchard successfully raised more than \$1,600 on Indiegogo in 2016 for a “new studio set up” to use to make racist videos.

However, as mainstream crowdfunding websites became aware of white supremacist exploitation of their platforms, they have increasingly moved to shut such extremists out. Some white supremacists and other extremists have attempted to create their own alternative crowdsourcing platforms, but most of these have failed or are in the process of failing, which means that crowdfunding may not become a sustainable source of revenue for white supremacists in the short to medium term.

Bitcoin and crypto-currencies:

White supremacists routinely encounter problems with money transfers and payment processing. Sites like PayPal and Google Wallet routinely deny them access and even getting a credit card payment processor is not always easy. As a result, the swift electronic transfer of money enjoyed by most people is by no means a given for white supremacists. For many, money is transferred using the slow and old-fashioned ways of check, money order or cash sent by mail.

In recent years, however, the electronic crypto-currency Bitcoin, which can be used for digital payments, has become an attractive alternative for some white supremacists, including Stormfront, the oldest and largest white supremacist website on the internet. The site claims that Bitcoin is its preferred payment method and provides its Bitcoin address to would-be contributors. In August 2017, Matt Parrott of the Traditionalist Worker Party, a neo-Nazi group, announced a “sweeping shift toward relying on blockchain-driven technologies [i.e., crypto-currencies like Bitcoin or Ethereum] instead of the traditional corporate internet.” The group had already been getting at least some donations through Bitcoin since 2015.³²

³¹ Anti-Defamation League, “Chapter 5: The New Kid on the Block: Crowdfunding,” *Funding Hate: How White Supremacists Raise their Money*, December 5, 2017 (<https://www.adl.org/resources/reports/funding-hate-how-white-supremacists-raise-their-money#the-new-kid-on-the-block-crowdfunding>)

³² Anti-Defamation League, “Chapter 6: Bitcoin and Cryptocurrencies,” *Funding Hate: How White Supremacists Raise their Money*, December 5, 2017 (<https://www.adl.org/resources/reports/funding-hate-how-white-supremacists-raise-their-money#bitcoin-and-cryptocurrencies>)

One odd aspect of Bitcoin is that, while the crypto-currency is anonymous in the sense that it does not transmit personally identifying information, it is quite transparent in that all transactions using Bitcoin are permanently and publicly stored. This means that if one knows the identifier for Bitcoin “wallets” belonging to extremists, one can actually examine transactions for those wallets. In October 2017, journalists Will Carless and Aaron Sankin did just that, with help from a Twitter bot, @NeonaziWallets, which posts information related to certain identified Bitcoin wallets. They revealed that Stormfront’s Bitcoin wallet was worth more than \$30,000, while that of the neo-Nazi website Daily Stormer was ten times that amount. Perhaps most surprisingly, their report revealed that white supremacist hacker Andrew Auernheimer has received more than a million dollars in Bitcoin currency, a staggering amount for a white supremacist. It should be noted that Auernheimer’s appeal extends beyond the white supremacist movement into several other movements or subcultures and that he is not at all representative of white supremacist use of Bitcoin.

However, some white supremacists have had problems even trying to use Bitcoin and other cryptocurrencies. Here the problem has been not Bitcoin per se, which anybody can use, but processors of electronic Bitcoin payments, at least some of whom are not necessarily willing to lend their services to white supremacists. As a result, the Daily Stormer website currently must have Bitcoin donations mailed to its post office box, the same as any donations by cash, check or money order. Thus Bitcoin is not necessarily a panacea for white supremacists.

Exploitation of Social Media

Extremists make up only a small segment of our population, but the internet amplifies their voices. Most extremists are unaffiliated with organized groups, but the internet has enabled isolated extremists to become more active and involved in virtual campaigns.

As internet proficiency and the use of social media have become universal, so too have the efforts of terrorist and extremist movements to exploit these technologies to increase the accessibility of materials that justify and sanction violence. Terrorist and extremist movements use online and mobile platforms to spread their messages and to actively recruit adherents who live in the communities they target. The resurgence and fast spread of both the militia and sovereign citizen movements in 2008-2009, for example, was enabled in large part by social media, as was the spread of IS and alt right propaganda since.

Today, individuals can easily find sanction and reinforcement online for their extreme opinions or actions, in some cases neatly packaged alongside bomb-making instructions. This enables adherents like white supremacist mass shooter Dylann Roof to self-radicalize without face-to-face contact with an established terrorist group or cell. Extremists and terrorists take full advantage of this virtual audience, regularly publishing detailed instructions for lone wolf terror attacks using knives, as well as cars, trains, and other modes of transportation, and in some cases providing lists of suggested targets, as well.

Approximately half of the 150 terrorist incidents described in a 2017 ADL report on 25 years of right-wing terrorism were perpetrated by lone wolf offenders.³³ And right-wing terror plots or attacks have involved more people, on average, than Islamist extremist plots or attacks, which have increasingly been carried out by lone actors.³⁴

Today, as a result of the internet, it is easier than ever for someone to become steeped in extremist ideologies, even to the point of being willing to commit acts of great violence, without ever being involved in an organized extremist group.

International Terror Finance and U.S. Foreign Policy

State Sponsors of Terror

The U.S. government currently designates four state sponsors of terrorism: Iran, North Korea, Sudan, and Syria.³⁵ However, Iran is far and away the most prolific of these three, providing extensive official support through its Islamic Revolutionary Guard Corps (I.R.G.C.) to such U.S.-designated Foreign Terrorist Organizations as Hamas, Hizballah, Kata'ib Hizballah, Saraya al-Ashtar, and others.³⁶ According to Treasury Under Secretary for Terrorism and Financial Intelligence Sigal Mandelker in June, Iran "provides upwards of \$700 million a year to Hizballah."³⁷

Successive American administrations, both Democratic and Republican, have pursued sanctions designations to expose and address Iran's state sponsorship of terrorism. The U.S. Treasury Department has continued this effort with a spate of recent designations, including two rounds of recent sanctions designed to show that the Central Bank of Iran is knowingly involved in facilitating the I.R.G.C.'s financial crimes such as money laundering and bank fraud in order to transfer funds in support of international terrorism.³⁸

³³ Anti-Defamation League, *A Dark and Constant Rage: 25 Years of Right-Wing Terrorism in the United States*, May 22, 2017

(https://www.adl.org/sites/default/files/documents/CR_5154_25YRS%20RightWing%20Terrorism_V5.pdf)

³⁴ Anti-Defamation League, "Chapter 3: Islamist Extremist Plots 2001-2017," *A Homegrown Threat: Islamist Extremist Plots in the United States*, May 1, 2018 (<https://www.adl.org/resources/reports/a-homegrown-threat-islamist-extremist-plots-in-the-united-states/#islamist-extremist-plots-2001-2017>)

³⁵ U.S. State Department, "State Sponsors of Terrorism," accessed September 5, 2018 (<https://www.state.gov/j/ct/list/c14151.htm>)

³⁶ U.S. State Department, "Chapter 3: State Sponsors of Terrorism," *Country Reports on Terrorism 2016*, July 2017 (<https://www.state.gov/j/ct/rls/crt/2016/272235.htm>)

³⁷ U.S. Treasury Department, "Under Secretary Sigal Mandelker Speech before the Foundation for the Defense of Democracies," June 5, 2018 (<https://home.treasury.gov/news/press-releases/sm0406>)

³⁸ U.S. Treasury Department, "United States and United Arab Emirates Disrupt Large Scale Currency Exchange Network Transferring Millions of Dollars to the IRGC-QF," May 10, 2018, (<https://home.treasury.gov/news/press-releases/sm0383>) & U.S. Treasury Department, "Treasury Targets Iran's Central Bank Governor and an Iraqi Bank Moving Millions of Dollars for IRGC-Qods Force," May 15, 2018 (<https://home.treasury.gov/news/press-releases/sm0385>)

Incomplete Lists of Terrorist Groups

One of the most fundamental challenges in combating international terror finance is simply getting our allies on the same page as us with regard to which international violent extremist groups should be classified as terrorists. In October, the House of Representatives passed H. Res. 359—which ADL endorsed—calling on the European Union to designate Hizballah in its entirety as a terrorist group.³⁹ The European Union insists on designating only the military wing of Hizballah as a terrorist group, even though Hizballah’s own leaders explicitly reject the notion that it has separate military and political wings, and despite the fact that failing to designate Hizballah as a whole makes it easier for the group to engage in logistical and propaganda activities in Europe.

Likewise, not a single Latin American government has designated Hizballah as a terrorist group, despite the fact that the group murdered 85 people and injured hundreds when it carried out the 1994 car bombing of the AMIA Jewish community center in Buenos Aires.

The six Arab monarchies in the Gulf jointly announced their conclusion in 2016 that Hizballah is a terrorist organization, and all six of these states joined the U.S. in two rounds of multilateral joint designations in the last year against terrorist operatives associated with Hizballah, al-Qaeda, or the Islamic State. However, as my colleague David Weinberg testified in the House this April, neither Oman nor Kuwait has issued a comprehensive public list of banned terrorist organizations.⁴⁰ Qatar’s list to this effect still has enormous and inexcusable gaps.⁴¹ And although some Gulf states such as Saudi Arabia take a tough line against Iranian-backed extremists, not one of the six Gulf monarchies has designated any of the Palestinian terrorist organizations that target Israel – such as Hamas or Palestinian Islamic Jihad, which are backed by Iran – as a terrorist group.⁴²

Safe Havens for Terror Financiers

Finally, stopping the flow of terrorist finance abroad requires cracking down on safe havens and ensuring that U.S.-designated terror financiers cannot enjoy legal impunity abroad.

Just this week, the U.S. government announced plans to further cut military aid to Pakistan over its continued tolerance of terrorist operatives on its territory.⁴³ For example, Pakistan has

³⁹ Congress.gov, “H.Res.359 - Urging the European Union to designate Hizballah in its entirety as a terrorist organization and increase pressure on it and its members,” Text Engrossed in House, October 25, 2017 (<https://www.congress.gov/bills/115th-congress/house-resolution/359/text>)

⁴⁰ David Weinberg, “Grading Counterterrorism Cooperation with the G.C.C. States,” Testimony before the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade and Subcommittee on the Middle East and North Africa, April 26, 2018 (<https://www.adl.org/media/11140/download>)

⁴¹ David Weinberg, “Qatar’s Swiss Cheese Terrorism List,” *ADL Blog*, April 11, 2018 (<https://www.adl.org/news/op-ed/qatars-swiss-cheese-terrorism-list>)

⁴² David Weinberg, “Grading Counterterrorism Cooperation with the G.C.C. States,” Testimony before the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade and Subcommittee on the Middle East and North Africa, April 26, 2018 (<https://www.adl.org/media/11140/download>)

⁴³ Saphora Smith and Reuters, “Trump admin cancels \$300M aid to Pakistan over terror record,” *NBC News*, September 2, 2018 (<https://www.nbcnews.com/news/world/trump-admin-cancels-300m-aid-pakistan-over-terror-record-n905786>)

continued to turn a blind eye to the military, political, and financial leaders of Lashkar-e-Taiba, the U.S.-designated Foreign Terrorist Organization based in Pakistan responsible for the 2008 Mumbai attacks that killed at least 166 people.⁴⁴ Six Americans were murdered in that attack, including at the Nariman House Jewish community center in Mumbai.

My colleague David Weinberg testified in April that Kuwait's top public university appeared to be listing three individuals on its faculty who are designated by the U.S. as funders of al-Qaeda.⁴⁵ Likewise, he noted that Qatar still appears to be hosting Hussam Badran, whom Israel identified as the mastermind of numerous Hamas terrorist attacks in the early 2000s that killed over 100 people and injured over 500 more. Since moving to Qatar, Badran has reportedly engaged in funding terrorism through gold and jewelry smuggling to Hamas terrorist cells in the West Bank.⁴⁶

Likewise, it is especially important for Latin American governments to tackle the threat posed by Hizballah because, according to the State Department, the Tri-Border Area at the nexus of Paraguay, Argentina, and Brazil has "continued to be attractive to individuals seeking to engage in terrorist financing, as the minimal police and military presence along these borders allowed for a largely unregulated flow of people, licit and illicit goods, and money."⁴⁷ Hizballah is generally considered to be the main perpetrator in this regard, and it also uses its networks in Latin America to provide illicit procurement and operational support to Iran's I.R.G.C.⁴⁸

Legislative and Administrative Policy Recommendations

Bully Pulpit

The right to free speech is a core value, but the promotion of hate should be vehemently rejected. Simply put, you cannot say it enough: America is no place for hate. The Administration must send loud, clear, and consistent messages that violent bigotry is unacceptable – and ensure that the FBI and the Civil Rights Division will enforce relevant federal laws and vigorously investigate and prosecute hate crimes.

Improved Coordination

The Department of Justice should host periodic interagency meetings to promote cross-agency collaboration and to address prevention of and response to extremism and hate violence. This

⁴⁴ U.S. State Department, "Amendments to the Terrorist Designation of Lashkar e-Taiba," April 2, 2018 (<https://www.state.gov/r/pa/prs/ps/2018/04/280125.htm>)

⁴⁵ David Weinberg, "Grading Counterterrorism Cooperation with the G.C.C. States," Testimony before the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade and Subcommittee on the Middle East and North Africa, April 26, 2018 (<https://www.adl.org/media/11140/download>)

⁴⁶ Israel Defense Forces, "When Hamas Tries to Establish a Terror Network – We Stop Them," July 3, 2015 (<https://www.idf.il/en/minisites/hamas/when-hamas-tries-to-establish-a-terror-network-we-stop-them/>)

⁴⁷ U.S. State Department, "Chapter 2: Country Reports: Western Hemisphere," *Country Reports on Terrorism 2016*, July 2017, (<https://www.state.gov/j/ct/rls/crt/2016/272234.htm>)

⁴⁸ Emanuele Ottolenghi, *State Sponsors of Terrorism: An Examination of Iran's Global Terrorism Network*, Testimony before the House Homeland Security Committee Subcommittee on Counterterrorism and Intelligence, April 17, 2018 (<https://docs.house.gov/meetings/HM/HM05/20180417/108155/HHRG-115-HM05-Wstate-OttolenghiE-20180417.pdf>)

initiative should involve both lead enforcement agencies and agencies working to expand anti-bias and hate crime prevention training and outreach – including Department of Education, Department of Homeland Security, the Federal Bureau of Investigation (FBI), and the Department of Health and Human Services (HHS).

Recognizing Domestic Terrorism

The nature of domestic extremist movements is substantially different enough from foreign terrorist organizations that creating designed domestic terrorist organization lists is not practical or desirable and presents potential constitutional issues under the First Amendment. However, it is both practical and desirable to finally pass a domestic terrorism statute that explicitly recognizes and punishes domestic terrorism as a crime, calls upon the federal government to collect statistics on domestic terrorism and other forms of extremist-related criminal activity, and ensures training for law enforcement on domestic terrorism. Such a statute should focus on specific criminal acts and not cross the line to punishing First Amendment protected expression.

Countering Violent Extremism

The Administration and Congress should do all in their power to promote trust and encourage stronger relationships to counter attempts by both international terrorist organizations and domestic hate and extremist groups to recruit disaffected Americans. The Administration should fully resource and staff efforts at both security and non-security Executive branch agencies to implement programs aimed at preventing and intervening in the process of radicalization to violence. DHS should clarify its funding criteria and demonstrate that it is committed to funding the full range of programs – domestic and international – designed to counter all forms of violent extremism, not just those associated with Islamist extremism.

Community Resilience Programming

Congress and state legislatures should authorize and appropriate grants for research and services to better understand the drivers of extremist hate and fund evidence-based programming to counter it. Some opportunities are available for research, but far from enough; there is no comprehensive strategy and program to counter the trends we are seeing online and in our communities. State, local, and community leaders must create opportunities throughout the lifecycle of hate—from awareness to intervention to rehabilitation and victims services—in support of comprehensive, evidence-based, whole-of-society programs that counter all facets of hate and extremism. Recent ADL-supported programs that nurture these sorts of partnerships include the Mayors’ Compact to Combat Hate, Extremism, and Bigotry; the Strong Cities Network; and Communities Overcoming Extremism: The After Charlottesville Project

Dialogue Between Civil Society and Tech Sector

In the last several years, civil society and the technology sector have partnered on a range of projects to ensure public sector approaches adapt for the digital era. Governmental efforts to address hate and extremism have been little more than opportunities to hold joint events, and are far from collaborative partnerships. Policymakers should pursue genuine partnerships with the

technology sector to ensure the government can better counter extremism online, and to help technology companies find solutions to emerging challenges.

Inclusive and Comprehensive Terms of Service

Tech companies must continue to improve their terms of service, especially in relation to extremism. This commitment should include creating strong and robust prohibitions on extremist content. Platforms should fine-tune their approaches to dealing with such extremism. In addition to having clear and transparent terms of services, platforms must vigorously enforce these guidelines for the benefit of their users. This should include more rigorously policing their platforms to avoid providing services to U.S.-listed Specially Designated Global Terrorists.

Continue Utilizing Terrorist Designations Abroad

The Treasury and State Department's authority to designate terrorist financiers and operatives is a particularly powerful tool in certain regards. Even when designated entities are not directly exposed to the U.S. financial sector, such designations signal to outside actors to avoid dangerous transactions and alert security officials in other countries to potential threats. Notably, the United States has not sanctioned a single Hamas financial operative since 2015, despite a regrettably rich target environment in this regard throughout the Middle East. The U.S. government should also continue to strategically use these designations at times to isolate ideological purveyors of hatred and extremism if they are also engaged in sanctionable offensives, such as former mentor to Osama bin Laden Abdulmajeed al-Zindani, who was sanctioned by the United States and U.N. in 2004.⁴⁹

Press U.S. Allies to Designate All Terrorist Groups

Congress and the Executive branch can each take constructive steps to encourage U.S. allies to designate major terrorist groups. This includes urging European and Latin American governments to designate Hizballah in its entirety as a terrorist organization and urging Gulf governments to designate Hamas and Palestinian Islamic Jihad. Congress can continue to highlight these issues with such bills as H. Res. 359 specifically on the E.U.-Hizballah issue that passed the House last year,⁵⁰ as well as through public letters to foreign governments and in your conversations with foreign leaders.

⁴⁹ U.S. Treasury Department, "United States Designates Bin Laden Loyalist," February 24, 2004 (<https://www.treasury.gov/press-center/press-releases/Pages/js1190.aspx>); & United Nations Security Council, "Narrative Summaries of Reasons for Listing: QDi.156 Abd al-Majid Aziz al-Zindani," designated February 27, 2004, narrative summary posted July 23, 2009 and updated June 10, 2013 (https://www.un.org/sc/suborg/en/sanctions/1267/aq_sanctions_list/summaries/individual/abd-al-majid-aziz-al-zindani)

⁵⁰ Congress.gov, "H.Res.359 - Urging the European Union to designate Hizballah in its entirety as a terrorist organization and increase pressure on it and its members," Text Engrossed in House, October 25, 2017 (<https://www.congress.gov/bills/115th-congress/house-resolution/359/text>)

Pass Key Terror Finance Bills

The ADL has endorsed two bipartisan pieces of legislation on international terror finance that this Committee should help enact into law. The first is H.R. 5132, the Iranian Revolutionary Guard Corps Economic Exclusion Act, which was introduced in March and was referred at that time to several Committees, including House Financial Services.⁵¹ The bill would strengthen existing U.S. sanctions against companies controlled by the I.R.G.C. and impose additional sanctions on foreign persons that provide material support to the I.R.G.C. ADL has also endorsed H.R. 2712, the Palestinian International Terrorism Support Prevention Act of 2017.⁵² This bill imposes sanctions on foreign persons or governments that provide material support to Hamas or Palestinian Islamic Jihad. The bill was introduced in May of last year and was referred to the House Financial Services Committee as well as the House Committee on Foreign Affairs; the latter marked up the bill and approved it in November, but this Committee has yet to act on it.

Dry Up Terror Finance Safe Havens Abroad

However worthwhile designating international terror financiers may be, the United States also needs to be prepared for the reality that there are certain jurisdictions in which such individuals enjoy legal impunity. In such cases, Members of Congress should encourage the Secretary of State to invoke article 6(j) of the Export Administration Act of 1979, publicly naming those jurisdictions that turn a blind eye to terror financiers and to other terrorist facilitators based in their country. This would in turn require the licensing of dual use items being exported from the United States to such countries, in order to ensure that U.S. foreign trade is not exploited to allow sensitive technologies to fall into the hands of terrorists and their facilitators abroad. It would also provide such countries with an added incentive to abandon their negligent conduct.

Seek to Extradite Terror Facilitators Enjoying Legal Impunity Abroad

The United States should pursue legal action when host governments are unprepared to do so and the United States has potential jurisdiction, such as against the perpetrators of crimes that touch the U.S. financial system or against terrorists who help to murder Americans abroad. For example, the United States has filed charges against one of the perpetrators of Hamas's 2001 Sbarro pizza bombing, Ahlam Tamimi, who is enjoying legal impunity in Jordan despite being on America's Most Wanted Terrorist list on charges of murdering two American citizens and injuring at least four other Americans in that attack.⁵³ The United States could seek to file and unseal similar charges against Hussam Badran in Qatar, whom Israel has identified as one of the masterminds of that attack and a Hamas financier, among other roles.⁵⁴ Both Congress and the

⁵¹ Congress.gov "H.R.5132 - Iranian Revolutionary Guard Corps Economic Exclusion Act," Introduced in House on March 1, 2018 (<https://www.congress.gov/bills/115th-congress/house-bill/5132/text>)

⁵² Congress.gov, "H.R.2712 - Palestinian International Terrorism Support Prevention Act of 2017," Introduced in House on May 25, 2017 (<https://www.congress.gov/bills/115th-congress/house-bill/2712/text>)

⁵³ Federal Bureau of Investigation, "Ahlam Ahmad al-Tamimi," *Most Wanted Terrorists*, accessed September 5, 2018 (https://www.fbi.gov/wanted/wanted_terrorists/ahlam-ahmad-al-tamimi)

⁵⁴ David Weinberg, "Grading Counterterrorism Cooperation with the G.C.C. States," Testimony before the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade and Subcommittee on the Middle East and North Africa, April 26, 2018 (<https://www.adl.org/media/11140/download>)

Administration could add public and private pressure for Tamimi and Badran's timely extradition for their alleged roles in the murder of American Jews.

Improve federal response to hate crimes

The federal government has an essential leadership role to play in confronting hate crimes, extremism, and acts of violence motivated by prejudice. It cannot do so if it scapegoats Muslims, refugees, and other marginalized communities through policy and executive action. At a time of increased incidents of bias, harassment, and hate violence, the Administration's policies and actions have a direct impact on whether individuals will trust police enough to report crimes, including hate crimes. Special attention needs to be paid to strong enforcement of hate crime laws, underreporting of hate crimes by law enforcement to the FBI and by communities, and training for law enforcement on recognizing and responding to hate crimes. DOJ should establish an interagency task force to coordinate hate crime prevention initiatives and responses across the executive branch and the federal government should help law enforcement agencies improve data collection and training on how to effectively address hate crimes and their victims.

Conclusion

Seventeen years after the September 11 terrorist attacks, we very much hope that these hearings—and any that come after them—will acknowledge and highlight the extraordinary, successful efforts of federal, state, and local law enforcement officials to prevent and deter terrorism on our shores. But police and counterterrorism officials do not work in a vacuum; they cannot do their job without community relationships, cooperation, trust, and a shared sense of responsibility for public safety. ADL will continue to advocate—in Congress and in the courts—for law enforcement officials to have investigative tools sufficient to deter and prevent terrorism, while appropriately balancing national security and individual rights.

MURDER AND EXTREMISM IN THE UNITED STATES IN 2017

An ADL Center on Extremism Report

ADL
Anti-Defamation League



MURDER AND EXTREMISM IN THE UNITED STATES IN 2017

An ADL Center on Extremism Report

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KEY FINDINGS

- Every year, adherents of a variety of extreme movements and causes kill people in the United States; ADL's Center on Extremism tracks these murders.
- In 2017, extremists killed at least 34 people in the U.S., a sharp and welcome decline from the much higher totals for 2016 and 2015, but still the fifth deadliest year since 1970.
- Unlike 2016, a year dominated by the Pulse nightclub shootings in Orlando, Florida, committed by an Islamic extremist, a majority of the 2017 murders were committed by right-wing extremists, primarily white supremacists, as has typically been the case most years.
- The white supremacist murders included several killings linked to the alt right as that movement expanded its operations in 2017 from the internet into the physical world—raising the likely possibility of more such violent acts in the future.
- An Islamic extremist still committed the single deadliest incident in 2017: the New York City bike path vehicular homicide attack, which killed eight people. Adherents of several different extremist movements, including white supremacists, anti-government extremists, and black nationalists, have also used vehicles to commit attacks in the U.S. in the past several years.
- The year 2017 was the second year in a row in which black nationalists have committed murders in the United States. Combined with other violent acts by black nationalists in recent years, these murders suggest the possibility of an emerging problem.
- Firearms remain the most common weapon of choice for extremists committing deadly acts in 2017, followed by vehicles and stabbing/cutting implements.
- Two corrections officers and one police officer were killed by extremists in 2017, highlighting the threat that extremists pose to the safety of law enforcement officers.

INTRODUCTION

Extremism was a constant subject in the headlines in 2017, from protests to politicians and radical interpretations of Islam to the radical right. But extremists from a variety of groups and movements committed a variety of murders—some highly publicized and others largely invisible—leaving their violent marks on the American landscape.

By the preliminary tally of the Anti-Defamation League's Center on Extremism, 34 people were killed by domestic extremists in 2017. Compared to 2016, which totaled 71 extremist-related killings, and 2015, which produced 69 such deaths, the deadly tally for 2017 was markedly lower. Still, 2017 was still the fifth deadliest year since 1970 for domestic extremist-related killings.

MURDER AND EXTREMISM IN THE U.S.		
Five Most Deadly Years for Domestic Extremist Killings (1970-2017)		
YEAR	NUMBER OF DEATHS	SIGNIFICANT INCIDENTS (5+ DEATHS)
1995	184	Oklahoma City bombing (168 deaths)
2016	69	Orlando shootings (49 deaths)
2015	65	San Bernardino, Chattanooga, Charleston shootings (28 deaths total)
2009	46	Ft. Hood shooting (13 deaths)
2017	34	New York City bike path vehicular homicides (8 deaths)

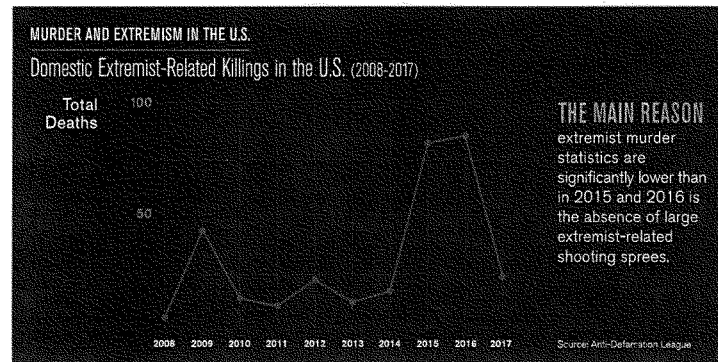
Note: Data is less reliable for 1970s-80s and may undercount extremist-related killings in those years. Source: Anti-Defamation League

These statistics illustrate that extremist-related killings comprise only a small fraction of the total number of homicides in the United States each year. Nevertheless, because of their nature, they can often have an outsized impact, affecting entire communities—or even the entire country—in ways many other deaths may not. Perhaps the clearest example of that from 2017 was the murder of Heather Heyer in Charlottesville, Virginia, in August by white supremacist James Alex Fields, Jr., during a white supremacist rally in that city. Heyer's death received national attention and for many served as a wake-up call to the dangers posed by a re-energized white supremacist movement.

It is important to note that the deaths described here represent merely the tip of a pyramid of extremist violence and crime in the United States; for each person actually killed by an extremist, many more are wounded or injured in attempted murders and assaults. Every year, police uncover and prevent a wide variety of extremist plots and conspiracies with lethal intentions. Moreover, extremists engage in a wide variety of other crimes related to their causes, from threats and harassment to white collar crime.

INTRODUCTION

The main reason the extremist murder statistics for 2017 are significantly lower than in 2015 and 2016 is the absence of large extremist-related shooting sprees. In 2016, Omar Mateen killed 49 people at the Pulse nightclub in Orlando, Florida. In 2015, white supremacists and Islamic extremists engaged in three significant shooting sprees that left 28 dead. In contrast, the deadliest extremist-related shooting incident in 2017, which took place in Fresno, California, involved a murder followed by a shooting spree that left three more dead—a tragic and deadly incident, but simply not at the same scale of some of the mass shootings of 2015–2016. There were actually more deadly incidents in 2017 (19) than in 2016 (13), though far fewer than in 2015 (32).



The deadliest extremist-related incident in 2017 was unusual in that it did not involve firearms or bombs but rather a vehicle. This was the October 31 terrorist attack by Sayfullo Saipov in New York City that involved vehicular homicide on a pedestrian walkway and bike path, with eight deaths. Given that the murder of Heather Heyer also involved a vehicle, the most highly-publicized Islamic extremist and white supremacist-related murders in 2017 each used vehicles as weapons—another unwelcome first for the United States.

INTRODUCTION

MURDER AND EXTREMISM IN THE U.S.

Ten Deadliest Acts of Violence by U.S. Domestic Extremists (1968-2017)

RANK	FATALITIES	YEAR	IDEOLOGY	WEAPON	DESCRIPTION
1	168	1995	Right-Wing Extremism	Bomb	Bombing of Murrah Federal Building in Oklahoma City by Timothy McVeigh and Terry Nichols
2	49	2016	Islamic Extremism	Firearm(s)	Shootings at Pulse nightclub in Orlando, Florida, by Omar Mateen
3	14	2015	Islamic Extremism	Firearm(s)	Shootings at Inland Regional Center in San Bernardino, California, by Syed Farook and Tashfeen Malik
4	13	2009	Islamic Extremism	Firearm(s)	Shootings by Nidal Malik Hasan at Fort Hood, Texas
5 (tie)	9	2015	Right-Wing Extremism	Firearm(s)	Shootings at Emanuel AME Church in Charleston, South Carolina, by Dylann Roof
5 (tie)	9	1972-73	Left-Wing Extremism	Firearm(s)	Shootings of police officers and whites in Dec. 1972 and Jan. 1973 in New Orleans by Mark Essex
7 (tie)	8	2017	Islamic Extremism	Vehicle	Vehicular homicides on New York City bike path allegedly by Sayfullo Saipov
7 (tie)	8	1972	Left-Wing Extremism	Firearm(s)	Shootings on St. Croix (U.S. Virgin Islands) by alleged black power activists
9 (tie)	6	2012	Right-Wing Extremism	Firearm(s)	Shootings at Wisconsin Sikh temple by Wade Michael Page
9 (tie)	6	1977	Right-Wing Extremism	Firearm(s)	Workplace shootings by Frederick Cowan in New Rochelle, New York

Source: Anti-Defamation League

INTRODUCTION

These attacks follow a number of vehicular attacks elsewhere in the world, including Spain, France, and Great Britain, but the United States has seen its share of such attacks in recent years. In November 2016, a vehicular and stabbing attack at Ohio State University in Columbus by an Islamic extremist resulted in 13 injured people. In September 2016, a black nationalist, Marc Laquon Payne, was charged for attempting to kill police officers in Phoenix by ramming them with his car; he injured three. In July 2015, an anti-government sovereign citizen drove through a crowd at a Fourth of July fireworks show in Oak Ridge, Tennessee, killing one person and injuring eight more. Thus, in the past three years, people from four different extremist movements have tried to use vehicles as deadly weapons in the United States.

THE PERPETRATORS

Extremists from a variety of different movements were involved in murders in 2017, including various types of white supremacists, anti-government extremists, Islamic extremists, and black nationalists, as well as one adherent of the alt lite. Sometimes extremists adhere to or are influenced by more than one extremist movement; in such cases, extremists are categorized here by the ideology that seems to be the most important to them.

Usually such categorizations are straightforward, but occasionally incidents emerge that are much harder to characterize. Perhaps no better example exists than Jeremy Christian, who is accused of stabbing to death two people and severely injuring a third as they tried to defend two teenaged girls—one Muslim and the other African-American—in a confrontation reportedly initiated by Christian in Portland, Oregon in May. Based on comments made by Christian, descriptions of him by people familiar with him, as well as his social media postings, Christian emerges as a volatile, angry man who appears to have fueled his rage with ideas from a variety of sources. Christian frequently expressed hatred of people on the left, and showed up at right-wing events in the Portland area, but had been a supporter of Democratic presidential candidate Bernie Sanders—seemingly because he thought Sanders would smash the establishment. Most of Christian's influences seem to have been right-wing in nature and include some from the white supremacist movement and others from anti-government extremists such as sovereign citizens and the militia movement. It is clear that Christian belongs somewhere on the extreme right but it's difficult to categorize him precisely. For purposes of this report, his murders have been categorized as white supremacist in nature, but others could look at the available evidence and possibly come to a different conclusion.

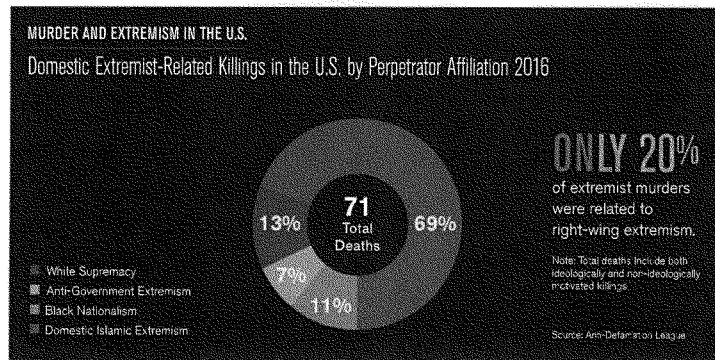
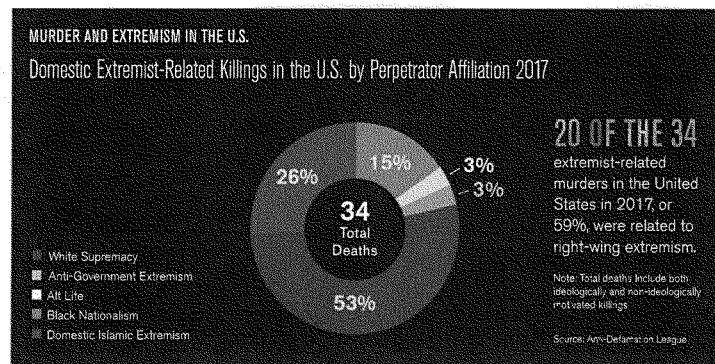
In some instances, not enough evidence has emerged to be able to categorize a particular murder as extremist-related. The most noteworthy such case from 2017 was the May stabbing murder of Richard W. Collins III, an African-American student at Bowie State University in Maryland, allegedly by a white University of Maryland student, Sean Urbanski. After his arrest, Urbanski was widely characterized as a white supremacist based on his membership in a racist Facebook group called "Alt-Reich Nation." However, that Facebook group included people who were not white supremacists as well as people who were, and no other specific information has emerged suggesting Urbanski had ties to the white supremacist movement.

In October 2017, Urbanski was charged with a hate crime in connection with the murder. This was a result of the police investigation, which uncovered what one prosecutor described as "lots of digital evidence" of a racial motive. This evidence, if revealed or presented in court, may in the future provide confirmation of an extremist tie on the part of Urbanski, but based on presently available information, the Collins murder does not appear in this report.

THE PERPETRATORS

Even without incidents such as the Collins murder, white supremacists were responsible for the majority of extremist-related killings in 2017, as is usually the case each year, though it was not true for 2016. White supremacists were responsible for 18 of the 34 murders documented in 2017. A right-wing anti-government extremist committed one murder (see below), while an adherent of the alt life—an offshoot of the alt right that rejects explicit white supremacy while retaining the alt right's other hateful views of Muslims, immigrants, LGBTQ individuals, the left, and especially women—committed another.

Thus 20 of the 34 extremist-related murders in the United States in 2017, or 59%, were related to right-wing extremism. This can be compared to 2016, in which only 17% of extremist murders were related to right-wing extremism—though, again, 2016 was an aberration. Over the past 10 years (2008-17), domestic extremists have been responsible for at least 387 murders; of these, 274 (71%) were committed by right-wing extremists of one type or another.



THE PERPETRATORS

Some of the murders involving right-wing extremists made headlines around the world, such as the murder of Heather Heyer, allegedly by James Fields, during an alt right rally in Charlottesville, Virginia, or the May 2017 Tampa, Florida murders reportedly confessed to by Devon Arthurs, one of four roommates who were all members of Atomwaffen, a neo-Nazi group. Arthurs, who had recently converted to Islam (though apparently not a radical form of Islam), reportedly became angry that his roommates made fun of his conversion and he shot two of them. A fourth roommate, Brandon Russell, who was not present at the time of the shootings, subsequently pleaded guilty to unrelated federal explosives charges after bomb-making materials belonging to him were discovered during the murder investigation.

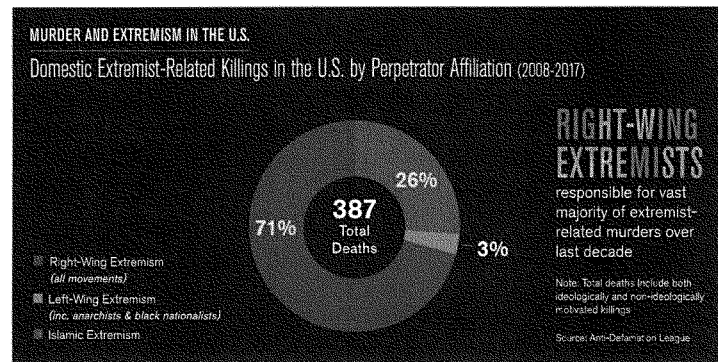
Several murders involving right-wing extremists appear to have stemmed from arguments over their extremist beliefs or affiliations. In July 2017, Lane Maurice Davis, an alt lite conspiracy theorist, was accused of stabbing his father to death at their home on Samish Island, Washington, following an argument with his parents over Davis's beliefs and conspiracy theories. Across the country, a teenager from Reston, Virginia, was charged with shooting and killing his girlfriend's parents in December after they convinced their daughter to break up with him because of the teenager's white supremacist beliefs.

James Fields and Lane Davis also stand out as adherents of the alt right and alt lite, respectively (the latter movement diverging from the former in 2017). Prior to 2017, the alt right was overwhelmingly an online phenomenon, with people expressing opinions in online venues ranging from 4chan and Reddit to Twitter and Facebook, as well as more obscure sites and platforms. Energized by the 2016 presidential election and the media attention given to the movement, alt right adherents (and, after the split, alt lite adherents, too) increasingly involved themselves in the real world as well as the virtual realm, forming actual groups such as Identity Evropa, while engaging in a variety of real-world activities ranging from protests and rallies such as the August "Unite the Right" event in Charlottesville to racist flier campaigns targeting college campuses in the United States and Canada.

With the expansion to real world activities, it was inevitable that some alt right and alt lite adherents would engage in violent acts, like previous extremists before them. Another such act involved James Harris Jackson, a Maryland white supremacist and fan of the alt right website Daily Stormer. Jackson travelled to New York to launch a series of attacks against African-American men. On March 30, he used a sword to fatally stab a homeless African-American man, Timothy Caughman, in what Jackson later admitted to police was a "practice run" for a planned violent spree in Times Square. Jackson, who turned himself in to police before killing anybody else has been charged with murder as an act of terrorism.

It is quite likely that the future will see yet more violent acts stemming from the ranks of the alt right and the alt lite as more of their adherents move their activities into the real world.

THE PERPETRATORS



Islamic extremists were responsible for nine of the 34 killings (26%) documented in 2017, with eight of those stemming from the bike path attack by Sayfullo Saipov. The other incident was the February 2017 murder of a transit security guard in Denver, Colorado, allegedly by Joshua Andrew Cummings, a convert to Islam who had once been reported to the Department of Homeland Security by members of a local mosque as possibly becoming radicalized. After his arrest for the murder, Cummings told a journalist that, though he subsequently pledged allegiance to the terrorist group ISIS, the murder of the security guard had not been committed on behalf of ISIS but rather for the “pleasure of Allah,” a somewhat inscrutable statement. This murder is presently categorized in this report as a non-ideological murder rather than an ideological murder, though that may change if more information emerges.

Over the past 10 years, Islamic extremists have been responsible for at least 99 of the 387 documented extremist-related murders (26%). What is most remarkable about these murders is that the overwhelming majority were committed in just a handful of relatively high-casualty attacks, as opposed to the much more numerous but usually smaller-scale deadly incidents involving other types of extremists.

Finally, five of the 34 murders (15%) were committed by black nationalists (for purpose of simplicity, the Center on Extremism includes both black nationalists and anarchists in the broader category of “left-wing extremism,” while acknowledging that black nationalists include some adherents who don’t necessarily fit neatly within that category). In April 2017 in Fresno, California, Kori Ali Muhammad was accused of allegedly murdering a security guard at a hotel, then several days later embarking on a shooting spree that seemed to target white people as victims. Muhammad was charged with killing three people in that spree, bringing his total to four deaths, before police were able to arrest him. Muhammad’s father subsequently said his son believed in a war between whites and blacks. The following month in Dallas, Texas, Derick Lamont Brown, a member of the Huey P. Newton Gun Club and former Dallas chairman of the New Black Panther Party, shot and

THE PERPETRATORS

killed his godfather, with whom he shared a residence, then wounded a neighbor and an EMT before fatally shooting himself after police arrived at the scene.

These deadly events followed the 2016 murders of eight police officers in Dallas and Baton Rouge at the hands of black nationalists; the attempted vehicular murders of police in Phoenix by Payne, described above; a shootout with police in Belleville, Illinois, in June 2016 initiated by Angelo Brown, the head of the Revolutionary Black Panther Party; and the 2014 plot by two black nationalists in St. Louis, Missouri, to kill police officers and bomb the Gateway Arch. Taken together, these incidents represent the most significant black nationalist-related violence since the early 1980s and should be something of a concern as a possible emerging extremist threat, though one that is so far still far smaller than threats posed by right-wing extremists and Islamic extremists.

THE MURDERS

The 34 extremist-related murders in 2017 represented a significant decline after four straight years of rising deaths but were still above the average number of yearly murders in recent decades (29).

In contrast to the previous two years, 2017 saw fewer victims killed by firearm; only 20 of the 34 murders (59%) were committed using firearms as a weapon, a significant drop from 2016 (93%) and 2015 (80%), and substantially lower than the 10-year average (72%). However, the bike path murders show that guns and bombs are not the only ways extremists bent on destruction can be deadly. Guns, vehicles and stabbing weapons accounted for all the documented murders in 2017; no murders emerged related to bombs, beatings, or other means.

Ideology seems to have played a primary or secondary role in 17 of the 34 murders (50%), but this figure includes the Samish Island and Reston murders as non-ideological, though some could argue that ideology played at least a secondary role in these domestic disputes. In nine of the 34 murders (26%), hate-related motives seem to have played a primary or secondary role.

Many extremist-related murders each year, as in 2017, are essentially non-ideological killings, which can include killings stemming from factional disputes, murders of suspected informants, as well as murders committed by extremists in the pursuit of traditional criminal motives. In another domestic dispute, in Leadwood, Missouri in February, neither ideology nor hate seems to have played a part when Frank Ancona, the head of the Traditionalist American Knights of the Ku Klux Klan, was murdered, allegedly by his wife and fellow Klan member, Malissa Ancona, and her son.

In another non-ideological killing, David Atchison of Aztec, New Mexico, seems to have had two obsessions—school shootings and white supremacy. He opened fire at a local high school, killing two students before taking his own life.

Two non-ideological murders occurred during an escape attempt from a prison bus in June, when two Georgia inmates—one of them a member of the Ghostface Gangsters, a white supremacist prison gang—overpowered two corrections officers, Christopher Monica and Curtis Billue, took one of their guns, and killed the officers. They were subsequently recaptured in Tennessee and now face the death penalty for the murders.

Extremists of any sort can pose a safety risk to corrections officers and police officers, as the deaths of Monica and Billue tragically illustrate. There have been numerous murders of corrections officers by extremists over the years, while almost every year at least one police officer is killed by an extremist.

2017 was no exception. The sole murder committed by an anti-government extremist in 2017 was the deliberate targeting of a police officer in one of the year's most cold-blooded killings. In May, Deputy Sheriff Mason Moore of Broadwater County, Montana, attempted a traffic stop in May

THE MURDERS

on a car carrying two anti-government extremists, Lloyd Barrus and his son, Marshall Barrus. The stop led to a car chase and shootout in which the deputy was wounded. After seeing the officer's vehicle come to a stop, the two men made a U-turn, drove back to the police cruiser and allegedly fired dozens of rounds at the officer, killing him. Authorities eventually located the Barruses and, following a high speed chase, a second shootout occurred, in which Marshall Barrus was killed and his father arrested. Authorities subsequently learned that the two had apparently discussed a "suicide mission" against police and had even wanted to bring Marshall Barrus's children with them.

The 2017 incident was not the first shootout with law enforcement for Lloyd Barrus. In the early 2000s, Barrus, another son, and a third person were involved in a car chase and standoff in Death Valley, California, during which their gunfire forced down a California Highway Patrol helicopter. No one was killed in that earlier encounter.

MURDER AND EXTREMISM IN THE U.S.				
Police Officers Killed in the United States by Domestic Extremists (1965-2017)				
YEARS	BY LEFT-WING EXTREMISTS*	BY RIGHT-WING EXTREMISTS	BY DOMESTIC ISLAMIC EXTREMISTS	TOTAL
1965-1970	3	0	0	3
1971-1980	25	1	2	28
1981-1990	5	6	0	11
1991-2000	1	16	0	17
2001-2010	2	24	0	26
2011-2017	8	10	1	19
Total	44	58	3	105

*Note: Includes anarchists, black nationalists

Source: Anti-Defamation League

There is one extremist-related officer death not included in this report's statistics. An Orlando, Florida, man, Markeith Lloyd, was charged with killing his pregnant girlfriend, Sade Dixon, in December 2016, and Orlando police officer, Lt. Debra Clayton, in January 2017 while she was trying to arrest him. During court appearances in early 2017, Lloyd used language that strongly indicated an association with the sovereign citizen movement. However, because the sovereign citizen movement has so thoroughly penetrated jails and prisons across the United States, it is not clear if Lloyd had any association with the movement before his arrest or whether he, like countless others, only became exposed to the movement after his arrest and began using its pseudo-legal arguments in filings and court appearances. If evidence emerges that Lloyd had connections to the movement prior to the murders, he will be added to ADL's extremist murder statistics.

THE INCIDENTS

The 2017 extremist-related murders preliminarily documented by ADL include:

- **RESTON, VIRGINIA, DECEMBER 22, 2017.** An accused white supremacist teenager (as a juvenile, his name is being withheld until/unless he is formally charged as an adult) is reported to have killed the parents of his girlfriend before shooting himself, reportedly because they had convinced their daughter to break up with him because of his ostensible white supremacist beliefs.
- **AZTEC, NEW MEXICO, DECEMBER 14, 2017.** White supremacist David Atchison disguised himself as a student in order to conduct a school shooting at a local high school, where he killed two students before killing himself.
- **NEW YORK CITY, OCTOBER 31, 2017.** An Islamic extremist, Sayfullo Saipov, is accused of driving a rental truck down a bike path in New York City, killing eight people and injuring 11 others before being shot and arrested by police. Saipov reportedly claimed allegiance to ISIS.
- **GREELEY, COLORADO, AUGUST 16, 2017.** Kelly Raisley, believed to be a member or associate of the 211 Crew white supremacist gang, was arrested on first-degree murder charges for the murder of his uncle, Randy Gene Baker. Baker's wife and sister were similarly arrested. The motive was apparently personal.
- **CHARLOTTESVILLE, VIRGINIA, AUGUST 12, 2017.** White supremacist James Alex Fields, Jr., from Maumee, Ohio, was charged with first-degree murder and other crimes for deliberately ramming his vehicle into a crowd of protesters opposing the white supremacist "Unite the Right" rally being held in the city that weekend, injuring 19 people and killing one, Heather Heyer.
- **SAMISH ISLAND, WASHINGTON, JULY 14, 2017.** An alt lite conspiracy theorist and vlogger, Lane Maurice Davis, allegedly murdered his father following an argument over Davis's beliefs.
- **Century Correctional Institution, Florida, June 19, 2017.** Robert Hunt, an inmate with white supremacist tattoos, some common to prison gangs, is accused of stabbing to death an African-American inmate, Jorge Slaughter.
- **PUTNAM COUNTY GEORGIA, JUNE 13, 2017.** Ricky Dubose, a member of the Ghostface Gangsters white supremacist prison gang, and another inmate, Donnie Russell Rowe, reportedly killed two corrections officers while trying to escape from a prison bus. They were later recaptured.
- **PORTLAND, OREGON, MAY 26, 2017.** Police charge right-wing extremist Jeremy Christian with stabbing to death two men and severely injuring a third who were coming to the defense of two teenaged girls, one African-American and the other wearing a hijab, whom Christian was reportedly harassing.

THE INCIDENTS

- **TAMPA, FLORIDA, MAY 19, 2017.** White supremacist Devon Arthurs allegedly shot to death two of his roommates for making fun of his recent conversion to Islam. All three, and a fourth roommate, were members of Atomwaffen, a neo-Nazi group.
- **BROADWATER COUNTY, MONTANA, MAY 16, 2017.** Anti-government extremists Lloyd Barrus and Marshall Barrus are accused of killing a Broadwater County sheriff's deputy as part of a "suicide mission." Marshall Barrus was killed by police in a subsequent shootout and Lloyd Barrus was arrested.
- **DALLAS, TEXAS, MAY 1, 2017.** Black nationalist Derick Lamont Brown killed his godfather, with whom he shared a house, and wounded a neighbor and a paramedic before killing himself after police arrived.
- **FRESNO, CALIFORNIA, APRIL 18, 2017.** Kori Ali Muhammad, a black nationalist, allegedly killed a motel security guard then, several days later, embarked upon a shooting spree that killed three more people before police were able to arrest him.
- **NEW YORK CITY, NEW YORK, MARCH 30, 2017.** Maryland white supremacist James Harris Jackson travelled to New York City to attack African-American men in order to stop white women from engaging in interracial relationships. He is charged with fatally stabbing a homeless man before turning himself in to police.
- **NORTH JUDSON, INDIANA, MARCH 3, 2017.** Aryan Circle member Edward Blackburn allegedly shot and killed another man who was reportedly dating his ex-girlfriend.
- **LEADWOOD, MISSOURI, FEBRUARY 9, 2017.** Frank Ancona, head of the Traditionalist American Knights of the Ku Klux Klan, was shot to death; his wife and fellow Klan member, Malissa Ancona, and her son have been charged for the murder.
- **DENVER, COLORADO, FEBRUARY 1, 2017.** Joshua Andrew Cummings reportedly shot and killed a transit security guard in Denver. Cummings, a convert to Islam described by people who knew him as possibly becoming radicalized, claimed after his arrest that he had pledged his allegiance to ISIS after three days of fasting behind bars but that the murder was not done on behalf of ISIS.
- **SAN ANTONIO, TEXAS, JANUARY 29, 2017.** Ashton Lucas Lomas was charged with capital murder after allegedly robbing and shooting to death Martin Gonzales over an alleged dispute Gonzales had with another person. Lomas and others charged in the case appear to be members or associates of the Aryan Brotherhood of Texas.
- **LAFAYETTE, INDIANA, JANUARY 16, 2017.** Wesley Andrew Hampton, a self-declared white supremacist, and another defendant allegedly robbed and murdered a man in a home invasion.

NOTES ON METHODOLOGY AND SOURCES

The Anti-Defamation League's Center on Extremism has compiled a list of over 1,000 murders/killings by perpetrators associated with domestic extremist movements of all types since 1970—essentially the post-Civil Rights era. These are primarily murders committed by American extremists on U.S. soil, though a few cases involving American extremists murdering other Americans abroad (such as at Jonestown) are also included.

Because extremist connections to some murders can take months or years to be revealed, statistics for the most recent years will inevitably be revised upward in future years. For example, ADL's report on extremist-related murders in 2016 counted 69 murders; within a year, ADL had uncovered two more extremist-related murders for 2016 and revised its numbers accordingly. Similar upward revision is likely to occur in the future for the 2017 statistics presented here.

The incidents are derived primarily from public sources, leading to some limitations regarding cross-era or cross-movement comparisons. Regarding cross-era comparisons, generally speaking, information on extremist-related killings from the 1970s and 1980s is more difficult to obtain than for later years; thus it may not be meaningful to compare or contrast figures from the earlier era with figures from the 1990s or later.

The main limitation of cross-movement comparisons is that extremist connections to killings are easier to determine for some movements than for others. For example, white supremacists, who frequently sport many racist and white supremacist tattoos, or who may be documented as white supremacists by gang investigators or corrections officials, are often more easily identifiable. In contrast, it may be more difficult for police or media to identify, say, anti-government extremist associations that a suspect might have. This issue comes up most often with non-ideological killings rather than ideologically-motivated ones. It is fair to say that non-ideological murders committed by extremists other than white supremacists are probably underrepresented here.

In addition, because murders that occur behind bars often get little or no reporting by the media, and are typically not publicized by prison officials, prison-based violence by all extremist movements is definitely under-represented.

As with any such list, the inclusion or exclusion of certain borderline cases may be a judgment call based on the best evidence available, judgments with which others may possibly disagree.

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**Written Statement for
The Subcommittee on Terrorism and Illicit Finance**

**Survey of Terrorist Groups and Their Means of
Financing**

**By Mr. Ali H. Soufan
Founder of The Soufan Center
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*Testimony to be presented before the House Financial Services Committee, Subcommittee on Terrorism and Illicit Finance on
Friday, September 7, 2018.*

**About The Soufan Center**

The Soufan Center (TSC) is a nonprofit organization dedicated to serving as a resource and forum for research, analysis, and strategic dialogue related to global security issues and emergent threats. TSC fills a niche-role by producing independent, quality research and hosting proactive conversations in order to effectively equip thought leaders, policy makers, governments, bi- and multilateral institutions, media, and those in the non-profit and academic communities to engage in strategic security-related practices. Our work focuses on a broad range of complex security issues—from international and domestic terrorism, to humanitarian crisis analysis, to refugee and immigrant issues, and more.

The Soufan Center is a 501c3 non-profit organization

About Ali Soufan

Ali Soufan is the Founder of The Soufan Center. Mr. Soufan is a former FBI Supervisory Special Agent who investigated and supervised highly sensitive and complex international terrorism cases, including the East Africa Embassy Bombings, the attack on the USS Cole, and the events surrounding 9/11. He is the Chief Executive Officer of The Soufan Group and Founder of The Soufan Center.



“The Evolving Nature of Terrorism and the Current Groups Around
the World which Pose the Greatest Threats to the National Security of
the United States”

Testimony of Mr. Ali Soufan,
Founder of The Soufan Center

Before the Committee on Financial Services
Subcommittee on Terrorism and Illicit Finance
United States House of Representatives

Friday, September 7, 2018

Chairman Pearce, Ranking Member Perlmutter, distinguished members: Thank you for hearing my testimony today.

During this session on terrorist financing, you will hear a great deal about the *means* by which terrorists fund their organizations — taxation and extortion, sales of stolen oil and looted artifacts, opium, organized crime, donations, ransoms. These are all vital mechanisms to understand, and my fellow witnesses represent some of the leading experts in this field.

In my testimony, however, I would like to take a step back, and invite members to consider the wider geopolitical factors that together afford terrorists the *opportunity* to raise money. I am speaking of the many conflicts around the world in which such groups participate — especially those in Syria, North Africa, and Yemen.

Terrorists use these wars to boost their resources in several ways. Let me briefly highlight two.

First, they systematically embed themselves in the messy specifics of each conflict, to the point where it becomes difficult to separate them from legitimate local combatants.



They may use this cover to create front organizations through which to funnel funds. One example was Ahrar al-Sham, which means Free People of the Levant. As its name suggests, Ahrar al-Sham wanted to be seen as a nationalist group, rather than a radical jihadi one. In reality, it cooperated with al-Nusra and its leader was a man whom the Treasury Department called al-Qaeda's "representative in Syria."¹ Yet the rebranding stuck: the group reportedly received funds and material from sources in the gulf states and Turkey — all American allies.¹ The logic behind such support is as old as conflict itself: "My enemy's enemy is my friend." But in this case, it represents an extremely dangerous line of thinking.

Today, in the complex civil war in Yemen, Saudi Arabia and its allies find themselves, in effect, on the same side as al-Qaeda in the Arabian Peninsula (AQAP). AQAP has strengthened its ties to Yemen's Sunni tribes and militias, to the point where it would be difficult, if not impossible, to support those groups without indirectly supporting al-Qaeda. Last month, the Associated Press reported that the Saudi-led coalition had resorted to paying AQAP to retreat from strategic holdings, in the process allowing them to retain their weapons and stolen assets.² This is worrying, especially given active U.S. support for the coalition.

Second, terrorist groups benefit from heavy-handed foreign interventions. In the Middle East today, Saudi Arabia has set itself up as the Sunni counterweight to Iran. But in so doing, both regional powers have prolonged already bloody conflicts and lent them a vicious sectarian edge.

Bloodshed plays into the jihadis' overall game-plan, which has always been about exploiting these conflicts and weaponizing sectarianism. In the chaos of war, *jihadi* groups have seized territory across the region, opening the door to all kinds of fundraising opportunities, from taxation and extortion to outright robbery. Regional conflicts have also provided a recruitment bonanza. For example, around 45,000 foreign fighters from around the globe joined the so-called Islamic State in Iraq and Syria. Another example, as one AQAP

¹ (2017, August 5). Mapping Militant Organizations. Ahrar al-Sham. Retrieved September 5, 2018, from <http://web.stanford.edu/group/mappingmilitants/cgi-bin/groups/view/523>

² Michael, M. (2018, August 7). AP. *AP Investigation: US allies, al-Qaida battle rebels in Yemen*. Retrieved September 5, 2018, from <https://www.apnews.com/138788a561d74ca78c77cb43612d50da/Yemen:-US-allies-spin-deals-with-al-Qaida-in-war-on-rebels>



commander has been quoted as saying, with respect to the frontline in Yemen, “If we send 20 [fighters], we come back with 100.”³ Indeed, AQAP has grown from around 1,000 members when the conflict began⁴ to around 7,000 today.⁵

Seventeen years ago, almost to the day, the United States was attacked by a terrorist organization of around 400 members, based primarily in Afghanistan. We responded swiftly, and we defeated that version of al-Qaeda. Today, however, a new jihadi threat has emerged around the world. It consists of many different radical organizations, deeply embedded in local conflicts. That has made them difficult to target.

But there is a common factor linking these groups, including the so-called Islamic State (ISIS) as well as every al-Qaeda franchise. That factor is the ideology of salafi jihadism that manifests itself in the narrative of *bin Ladenism*. We must dedicate ourselves to destroying that narrative. Only when we do so will we finally defeat them.

Thank you once again for hearing my testimony.

³ Michael, M. (2018, August 7). AP. *AP Investigation: US allies, al-Qaida battle rebels in Yemen*. Retrieved September 5, 2018, from <https://www.apnews.com/f38788a561d74ca78c77cb43612d50da/Yemen-US-allies-spin-deals-with-al-Qaida-in-war-on-rebels>

⁴ (2014, April). U.S. Department of State. *Country Reports on Terrorism 2013*. Retrieved September 5, 2018, from <https://www.state.gov/j/ct/rls/crt/2013/224829.htm>

⁵ (2018, July 27). United Nations. *Twenty-second report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2368 (2017) concerning ISIL (Da'esh), Al-Qaida and associated individuals and entities*. Retrieved September 5, 2018, from http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2018/705&referer=/english/&Lang=E

